

In the Matter of:)
)
Investigating the Causes of) Docket No.
Petroleum Infrastructure) 04-SIT-1
Development Constraints)
)

SACRAMENTO, CALIFORNIA

9:08 A.M.

PETERS SHORTHAND REPORTING CORPORATION (916) 362-2345

COMMISSIONERS PRESENT

John L. Geesman, Presiding Member

James D. Boyd, Associate Member

Jackalyne Pfannenstiel

ADVISORS PRESENT

Chris Tooker

Michael Smith

Melissa Jones

STAFF PRESENT

Richard K. Buell

Daryl Metz

Gordon Schremp

Daniel W. Fong

PANELISTS PRESENT

Industry Panel

K.C. Bishop, III
ChevronTexaco

David J. Hackett
Stillwater Associates

Barry Hamburg
Chemoil

Gary Grimes
Paramount Petroleum

Dave Smith
bp West Coast

PANELISTS PRESENT

Industry Panel- continued

Ed Ferrer
Kinder Morgan

Tom Umenhofer
Consultant to Western States Petroleum Association

Joe Sparano
Western States Petroleum Association

Bill English
Altos Market Modeling Consultants
Altos Management Partners

Dominic Ferrari
Pacific Energy Partners

Mike Peterson
ST Services

Agency Panel

Michael Cham
Port of Los Angeles

Matt Goldman
Port of Long Beach

Carol Coy
South Coast Air Quality Management District

Gary Gregory
State Lands Commission

Steve Hill
Bay Area Air Quality Management District

Morty Prisament
City of Richmond

Kitty Hammer
Consultant to City of Benecia

Jim Hansen
City of El Segundo

PANELISTS PRESENT

Agency Panel- continued

Sheri Repp-Loadsman
City of Carson

Steve Petek
City of West Sacramento

ALSO PRESENT

Tom Torlakson, Senator
California State Senate

Dean C. Simeroth
California Air Resources Board

James E. Holland
Los Angeles Export Terminal, Inc.

Neil M. Koehler
Kinergy Resources, LLC

Kevin Dayton
Associated Builders and Contractors (ABC)

William B. Rostov
Communities for a Better Environment

Jim Swaney
San Joaquin Valley Air Pollution Control
District

Greg Shipley
Waste To Energy

Steve Friar
Coalition for Fair Employment in Construction

Thomas E. Gieskes
Stillwater Associates, LLC

via teleconference

Drew Laughlin

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P R O C E E D I N G S

9:08 a.m.

PRESIDING MEMBER GEESMAN: I'm John

Geesman, the Commission's Presiding Member of its Siting Committee. To the left of me is Commissioner Jim Boyd, the Associate Member of the Siting Committee, and Presiding Member of the Commission's Transportation Fuels Committee. And to his left is Commissioner Jackie Pfannenstiel, our newest Member, and the Associate Member of our Transportation Fuels Committee. To my right is Chris Tooker, my Staff Advisor.

This is a meeting of the Commission's Siting Committee to review what information we can develop that better illuminates issues relating to our petroleum infrastructure development and constraints that the state faces in expanding that infrastructure.

I think those of you that are familiar with the Commission's Integrated Energy Policy Report that we adopted in November of 2003, and the AB-2076 report that this Commission adopted in July of '03 and the Air Resources Board adopted in, I believe, August of '03, recognized that the state faces some very difficult challenges in

1 meeting the demand for petroleum-related
2 transportation fuels in the future.

3 Both of those reports adopted
4 recommendations regarding the reduction of demand
5 for petroleum-related transportation fuels, the
6 most aggressive goals adopted by any governmental
7 entity in the United States. They also reflected
8 a strong commitment to the development of
9 alternative transportation fuels.

10 At the same time, even placing 100
11 percent credence in the most optimistic scenarios
12 in those recommendations, our demand for
13 petroleum-related fuels is going to grow
14 inexorably over the course of the next decade.
15 Unfortunately our infrastructure doesn't appear to
16 be on a similar growth track. And one of the
17 primary reasons for that, that the Commission's
18 workshops last year established, was difficulties
19 in our permitting process.

20 We've held a couple of informal meetings
21 with various stakeholders this year that have
22 touched on those subjects, but not really rendered
23 information that could be put into a public forum
24 and subject to the sort of scrutiny that public
25 forum entails.

1 Today's workshop is an effort to do
2 that. And I would encourage people, despite the
3 informality that we hope to bring to the process,
4 to also bring as much candor as possible.
5 Opinions are solicited, but information will be, I
6 think, of a lot more enduring value.

7 I'm hopeful that Senator Torlakson is
8 able to join us. He had indicated a desire to
9 address us in our workshop. When he does come, or
10 becomes available, I want to interrupt the process
11 to allow him the opportunity to speak.

12 Commissioner Boyd.

13 ASSOCIATE MEMBER BOYD: Thank you,
14 Commissioner Geesman; and thank you for that
15 comprehensive introduction. As the brand new
16 Member of the Siting Committee I guess this is my
17 first official activity in that capacity.

18 I appreciate the leadership you've shown
19 on this subject ever since you and I were
20 introduced to this, as you indicated almost more
21 than a year and a -- almost two years ago now, as
22 we went through the various reports required by
23 the Legislature of us on the subject of petroleum
24 supply, demand, price, et cetera. And the various
25 conclusions that we did reach.

1 So I look forward to the input that we
2 collectively look forward to getting from this
3 effort to see if we can't somehow or another
4 address this issue of infrastructure that has
5 become more and more recognized as a current issue
6 that needs to be dealt with if we are to address
7 our ongoing problems with the provision of
8 adequate supplies at good prices, affordable
9 prices, of conventional transportation fuels.

10 So, in any event I look forward to what
11 you look to us as needing for this Committee to
12 respond to that issue, so, thank you very much.

13 PRESIDING MEMBER GEESMAN: Commissioner
14 Pfannenstiel.

15 COMMISSIONER PFANNENSTIEL: Thank you,
16 John. I'm here as a Member of the Transportation
17 Fuels Committee. I have a lot to learn. As I
18 came into the Commission I realized that this is
19 one of the key areas of much that I need to learn.
20 This is perhaps right at the top, so I appreciate
21 this workshop as a way to get me started.

22 Thank you.

23 PRESIDING MEMBER GEESMAN: And I should
24 note that we've been joined by Mike Smith on the
25 panel; he's Commissioner Boyd's Staff Advisor.

1 Daryl, should we get started with the
2 staff presentation.

3 MR. BUELL: Yes. My name is Rick Buell;
4 I just wanted to make a brief opening statement.
5 The staff would like to start the workshop by
6 making a presentation, background presentation, to
7 put the discussions of today's workshop in
8 context; to provide a view of what staff believes
9 the future might look like.

10 Our first speaker today will be Daryl
11 Metz. He works in our transportation fuels
12 office.

13 MR. METZ: Before I start I was asked to
14 mention that additional copies of the presentation
15 are being made and will be available shortly.
16 We're going to broadcast this, the presentation,
17 on the internet. And the presentations are also
18 available for download on the internet.

19 My goal here is to set the context of
20 the petroleum market in California; to give you a
21 little bit of background in the recent past and
22 developments.

23 What I'd like you to see from this
24 presentation is that things have changed. We're
25 going to go off and look at a lot of numbers, but

1 those numbers are going to tell a story, I hope.

2 And the story is that things have changed. Some
3 of those numbers are going to be small growths, on
4 an annual basis, but over time they've led to
5 substantial changes in our market.

6 And these changes have led to changes in
7 the infrastructure, and the needs for
8 infrastructure. And now off to the numbers.

9 We're going to speak about crude oil;
10 refiners and distribution; mention the MTBE phase-
11 out and ethanol supply and logistics; these last
12 two have led to major changes in the specification
13 for gasoline. And finish up with some price
14 issues.

15 And we have some pictures. The offshore
16 represents supplies from --

17 MS. SHAPIRO: Excuse me, Daryl, can you
18 make it so that there's less light. It's very
19 hard for us to see it.

20 (Pause.)

21 MR. METZ: We have a picture of an
22 offshore well for California production. Supplies
23 of crude oil coming from Alaska; and from around
24 the world by ship.

25 The U.S. has used 2.2 billion barrels of

1 oil a day -- the U.S. has used 2.1 billion barrels
2 of oil a day, and California production -- excuse
3 me, the first number was U.S. production, and
4 California produces 278 million barrels. We can
5 see that California is a substantial producer of
6 crude oil in the United States. We're the fourth
7 largest producer after Louisiana, Texas and
8 Alaska. And 55 percent of the crude produced in
9 California is from enhanced recovery. This is
10 important because it indicates that California
11 fields are mature and require a lot of energy to
12 continue producing.

13 California crude production has declined
14 almost 29 percent since 1986; Alaska has declined
15 48 percent; and the rest of the United States by
16 30 percent. Now, these overall trends change from
17 year to year, but the overall domestic production
18 is declining.

19 I'm going to go on to another slide
20 here. This shows the United States production
21 broken out by California, Alaska and the United
22 States, outside of those two states, and you can
23 see a strong downward trend in each of the series.

24 California production, again, overall
25 it's decreasing. There's been an increase in

1 federal offshore in the early '90s; and that is
2 now decreasing, too.

3 Global demand for oil is upwards of 80
4 million barrels per day. U.S. refineries produce
5 15 million -- processed 15 million barrels per day
6 in 2003, and 9.6 million barrels of it are
7 imported, or 63 percent. This contrasts with the
8 California, where we use 19 million barrels per
9 day and only import 34 percent from foreign. So,
10 California is much less dependent on foreign
11 sources, but imports -- is highly dependent on
12 Alaska in place of the foreign that the rest of
13 the country uses.

14 Declining California production and
15 Alaska production will be replaced by marine
16 vessels. The crude oil processing in California
17 refineries is expected to increase. And this just
18 reflects refinery creep in California. Gordon
19 will speak to that issue in a few minutes, a
20 little more.

21 This graph is probably the best
22 illustrates this issue. We can see that
23 California on the bottom here is declining
24 overall, but not at a very sharp rate. Alaska is
25 declining quite quickly, and the balance is being

1 made up by foreign sources. And overall we're
2 increasing our dependence on crude quite quickly,
3 even though we're not back to the peaks that we
4 were in the late '80s and early '90s.

5 The foreign sources that we're dependent
6 on are quite diverse. Though three countries,
7 Iraq, Ecuador and Saudi Arabia made up two-thirds
8 of the supply in 2003. Iraq in the past was more
9 important. And right now it's growing again in
10 importance.

11 Crude oil is a worldwide commodity. The
12 diversity of our supplies has increased over the
13 last 20 years from the foreign, Soviet Union,
14 Latin American, Canada have become more
15 significant. And as long as refiners are able to
16 purchase oil from the rest of the world, the
17 events and trends that affect worldwide prices
18 directly affect California's supply of prices of
19 crude oil no matter where they come from. So,
20 even though we may not get a large amount of oil
21 from Venezuela, the strikes in Venezuela last year
22 drove up the price of oil and directly affected
23 California prices.

24 The level of crude oil that we're
25 importing is not a direct impact on our prices.

1 It's the global conditions and supply and demand;
2 the supply controlled substantially by OPEC and
3 worldwide demand.

4 Thirteen refineries in California
5 produce reformulated gasoline. These 13
6 refineries are spread throughout the state. About
7 six are in northern California, or exactly six in
8 northern California; five in southern California;
9 and two in the Central Valley, Bakersfield.

10 Nine small refineries produce diesel,
11 jet and asphalt. These also produce inputs that
12 are used by the 13 refineries that make the
13 gasoline.

14 The last new refinery built in the
15 United States was built in California; and that
16 was the Benecia facility constructed by Exxon.

17 Independent refiners have increased
18 their presence in California. And are more
19 important, both in California and nationally.
20 Expansion projects continue. We see refinery
21 creep, but these tend to be small projects. In a
22 sense, de-bottlenecking. Collectively they're
23 important, but each individual project does not
24 appear to be a large impact on supply.

25 Permits and emission offsets can delay

1 these projects and affect the choice to undertake
2 them. Through the Integrated Energy Policy Report
3 the Energy Commission recommended steps to
4 undertake to streamline permitting.

5 Overall California refineries are used
6 at a quite high utilization rate. There's not a
7 lot of spare capacity. Even the spare capacity
8 shown on this graph is required, in a sense, for
9 maintenance and unexpected breakdowns. The two
10 things I'd like you to notice about this are the
11 increasing share of gasoline and the decrease in
12 importance of fuel oil. Since the '80s California
13 is producing less fuel oil. This fuel oil was
14 used to power power plants and generate
15 electricity. These power plants have switched to
16 natural gas as a source of fuel, and that fuel oil
17 is now refined further to make gasoline.

18 The drop in the capacity was the result
19 of some small refiners closing; and collectively
20 they've reduced the capacity to refine crude oil.

21 California is the center of the west
22 coast regional market. California produces 17,000
23 barrels a day of products. And these are exported
24 by a variety of means, pipeline, marine vessel,
25 railcar and tanker. They're shipped to Nevada by

1 pipeline. We supply nearly 100 percent of
2 Nevada's fuels. Arizona, we supply over half, 61
3 percent. And by barge to Washington and Oregon;
4 we also receive some products from Washington by
5 barge in exchange.

6 DR. TOOKER: Could you clarify that
7 number --

8 MR. METZ: Which number?

9 DR. TOOKER: Well, the 17-hundred-
10 thousand, what -- is it 1,700,000?

11 MR. METZ: 1,700,000.

12 DR. TOOKER: Okay, thank you.

13 PRESIDING MEMBER GEESMAN: Do you have a
14 sense as to what the number of exports for
15 Washington and Oregon would be?

16 MR. METZ: We don't have updated
17 numbers. We know that it's changing since 2002,
18 and we don't have the 2003 numbers. These numbers
19 we get from the Coast Guard, and they haven't
20 published them yet.

21 PRESIDING MEMBER GEESMAN: Is it safe to
22 assume it's a smaller number than what you're
23 showing for Nevada and Arizona?

24 MR. METZ: Yes, and particularly on
25 balance.

1 PRESIDING MEMBER GEESMAN: Okay.

2 MR. METZ: Most of the products to
3 Washington and Oregon seem to be done with trades,
4 the --

5 PRESIDING MEMBER GEESMAN: Okay.

6 MR. METZ: -- integrated refinery
7 management.

8 Imports of petroleum products arrive via
9 these marine vessels and railcar, too. And what
10 I'm referring to here is ethanol.

11 This busy map shows the product flows of
12 fuels, finished products. Start at the top,
13 there's a refinery center in Anacortes where
14 there's shipments down from Washington State to
15 L.A. and to San Francisco.

16 We also send products to Portland.
17 Products leave San Francisco and are shipped up to
18 northern California, Humboldt County. Number one
19 here shows products coming in from around the
20 world to both San Francisco and L.A. Number three
21 shows products coming from the Gulf Coast through
22 the Panama Canal to both the refining centers.
23 Trades occur between San Francisco and L.A. And
24 from the two refining centers products are
25 distributed into a northern region which includes

1 Reno and northern California. And a southern
2 region which includes southern California, Las
3 Vegas and Phoenix.

4 One potential increase in supply from
5 outside the area would be number 21 down here in
6 the corner where the Longhorn Pipeline might
7 supply more products into El Paso, which could
8 then be shipped along to Tucson and Arizona. At
9 this point the El Paso/Tucson section of that
10 pipeline is full. And until that is de-
11 bottlenecked, no additional supplies will be
12 coming into Arizona from that path.

13 ASSOCIATE MEMBER BOYD: Daryl, I note
14 the fairly extensive reliance on Kinder-Morgan,
15 and pretty heavy dependence on Kinder-Morgan, to
16 move fuel about the western region, as well as
17 within California.

18 MR. METZ: That's correct. Kinder-
19 Morgan is the dominant owner of pipelines in
20 California and the west, particularly among
21 products. And they're also involved in --
22 facilities in the L.A. basin.

23 PRESIDING MEMBER GEESMAN: Daryl, I'm
24 informed that Senator Torlakson is available.
25 Would this be a good time to pause in your

1 presentation and hear from him?

2 MR. METZ: Sure.

3 PRESIDING MEMBER GEESMAN: Senator,
4 welcome. I want to thank you for being here, and
5 also thank you for the attention which you have
6 shown to this issue in the Legislature. This is
7 an important session for us in terms of developing
8 a good evidentiary base to hopefully lead to
9 future action. And we certainly want to hear your
10 thoughts on it.

11 I think that would be probably the best
12 microphone. Make certain the green light is on.

13 SENATOR TORLAKSON: Good morning, thank
14 you, Commissioners. And thank you very much to
15 the Energy Commission and Commissioners Geesman
16 and Boyd for conducting this hearing. I just
17 wanted to express on behalf of one Member of the
18 Legislature, and I believe it will be very
19 strongly supported by the entire Legislature, the
20 importance of these proceedings.

21 I had hearings through a committee that
22 I chair called the Select Committee on Bay Area
23 Infrastructure about nine months ago. And as
24 we've all watched the spikes and the rise in gas
25 prices, we know there's a number of strategies to

1 address that; reducing consumption and doing
2 better planning in California. That's a whole
3 important topic, not the focus of today, but
4 that's having smarter communities and more balance
5 between jobs and housing, lessening commute and so
6 forth. These are important strategies to decrease
7 demand.

8 But on the other side we just know the
9 trend, the history, Californians love their cars
10 and we have a society that uses a lot of gasoline.
11 And the ever-increasing demand on our good
12 California clean fuel is on a line to just keep
13 continuing. And we need to work on the other side
14 of it, as you are here today, exploring how we
15 increase production, and how we make our
16 facilities safer as we go.

17 As we know in the electron energy
18 crisis, as we were able to replace old plants with
19 new production and get new power plants online in
20 the electricity crisis. We found that we could
21 get cleaner production and safer production at the
22 same time.

23 So this permitting process and findings
24 ways to streamline, work it faster, yet keep the
25 public process in place so that the communities

1 and those concerned with the environment, as well
2 as the applicants, can have a fair hearing and get
3 through the process in a timely fashion, is very
4 critical.

5 We are paralleling your efforts here,
6 and again commend you for starting this
7 investigation, this process, many months back.
8 After our hearing we looked at how could we assist
9 legislatively in getting a focus. And so we have
10 a bill, Senate Bill 429, which will ask the
11 Governor to designate someone within the Energy
12 Commission existing staff to help coordinate and
13 report back to the Legislature and the Governor
14 the best practices.

15 Because we do know that in certain parts
16 of California, as different districts, whether
17 it's an air district or a city or a county, the
18 struggle with the permitting process. They've
19 found some better ways to go about it. Taking
20 those best practices and sharing them among the
21 users of the system, those that are interested in
22 increasing capacity or improving petroleum
23 infrastructure facilities, as well as all the
24 stakeholders sharing that information is critical.
25 And then sharing it back to the Legislature and

1 the Governor so we could look at the next steps we
2 could do, we think is very important.

3 So, again, Commissioners, we commend you
4 for this; and whether it's pipeline that we know
5 through testing has got corrosion, it's got a
6 thinner wall, maybe at risk of breaking, shouldn't
7 take, you know, two, three, four years to get
8 through a permitting process. Or whether it's a
9 storage tank necessary for seeing us through the
10 bumps in the production cycle and supply cycle; or
11 whether it's actual new capacity within the
12 existing footprints of refineries.

13 All of these permitting issues are
14 critical to the future economy of the state, our
15 competitiveness as an economy, as well as to every
16 single motorist who drives up to the gas pump and
17 looks at those high prices and, you know,
18 confronts their budget as those prices keep going
19 higher.

20 So, again I commend you for these
21 efforts and we look forward -- the legislation
22 already has how many co-authors? Nineteen co-
23 authors. So there's a lot of support, bipartisan
24 support in the Legislature for tackling the very
25 issues you're tackling here today. I want to

1 commend the efforts and all the participants; and
2 look forward to your report.

3 PRESIDING MEMBER GEESMAN: Thank you
4 very much, Senator. And, again, thank you for the
5 leadership that you've shown in this area. We
6 look forward to making the information we develop
7 here today available to you and working closely
8 with you in the Legislature, going forward.

9 SENATOR TORLAKSON: Great, thank you,
10 and have a great day.

11 (Applause.)

12 PRESIDING MEMBER GEESMAN: Daryl, I had
13 a question on your map. And that is am I correct
14 in assuming that the only manners of ingress to
15 Nevada come through California?

16 MR. METZ: Nevada also may be supplied
17 very minorly by truck. But, maybe from Utah. In
18 cases of shortages they bring product in from
19 Utah. There's some small refineries

20 PRESIDING MEMBER GEESMAN: But the only
21 pipeline access --

22 MR. METZ: But the only pipeline access
23 is from California. And that is, by our estimate,
24 100 percent of the normal --

25 PRESIDING MEMBER GEESMAN: Thank you.

1 MR. METZ: I'm going to talk briefly
2 about the MTBE phase-out and the use of ethanol.
3 The MTBE phase-out has been completed. It's done.
4 Sixty to 70 percent of the state's gasoline was
5 produced without MTBE during 2003. And now there
6 is none, since the first of the year. Except for
7 this exception down here in the bottom, which
8 talks about the de minimis levels.

9 The rest of California refineries
10 completed in 2003 with the switch to winter
11 gasoline. Approximately 95 percent of gasoline
12 sold in California today contains ethanol. And
13 the 5 percent that does not contain ethanol does
14 not contain any oxygenates. This would be in the
15 attainment areas.

16 California regulations allow trace
17 amounts of MTBE because of the necessity to use
18 vessels that have carried products with MTBE and
19 allow for these very minor trace amounts.

20 With the phase-out of MTBE, the demand
21 for ethanol will and has increased. We estimate
22 that between 765 and 980 million gallons a year
23 will be used in 2004. The 765 figure is based on
24 80 percent of the gasoline in the state using
25 ethanol, which will be required by law. And the

1 980 million gallons would be if all gasoline in
2 the state uses ethanol. Right now we're at 95
3 percent is about the rate we're using it. And so
4 we're closer to the 980 figure.

5 Ethanol supply is keeping pace. There
6 appears to be no problems in making this ethanol
7 in the Midwest and shipping it here and
8 distributing it.

9 Current ethanol production capacity is
10 approximately 3.3 billion gallons per year. And
11 this will increase to 4 billion gallons per year
12 by the end of 2006. And that's based on a survey
13 that we did based on firms who have already broken
14 ground on new projects.

15 ASSOCIATE MEMBER BOYD: Daryl, with
16 regard to the ethanol supply, do you know for a
17 fact that all the ethanol is produced
18 domestically? Or do you know if we're getting
19 some ethanol from the, quote, "world market"?

20 MR. METZ: I believe that we are getting
21 ethanol almost exclusively from domestically. But
22 the world market has been important, particularly
23 Brazil. We get some supplies from, I should say,
24 the Caribbean Basin Initiative from Central
25 America. The Brazilian ethanol, which I would

1 call part of the world market, is supplying New
2 York and Connecticut. And that is diverting more
3 Midwestern supplies to California.

4 So those supplies are not coming
5 directly to us, but setting a backstop price for
6 ethanol.

7 ASSOCIATE MEMBER BOYD: Thank you.

8 MR. METZ: This chart shows ethanol use,
9 based on several different scenarios. The green
10 scenario is there will be no waiver. California's
11 requested a waiver from the oxygenate requirement
12 under federal regulations. And it assumes that
13 the entire California market that requires ethanol
14 under the federal regulations uses ethanol, well,
15 the entire California market goes with ethanol.

16 The yellow line is the minimum amount of
17 ethanol that we could use in California based on
18 that federal requirement. The blue is a waiver
19 condition where we continue to blend ethanol based
20 on economics. The red is RFS obligation. This
21 would be under -- if the renewable fuel standard
22 is passed under federal law. And since the RFS
23 has not passed, we can't really talk about what it
24 would be until it's finalized. But this was one
25 version of the bill, and I guess an estimate. The

1 very low line, the purple, is use of ethanol only
2 in CO nonattainment areas.

3 This is the results of a projected
4 ethanol capacity study we did. We pulled or tried
5 to create a census of firms that are planning to
6 expand ethanol capacity. The lower area hatchmark
7 is what is currently planned, or currently
8 existing. The increment of the light blue is
9 expansion of existing capacity, which are very
10 modest. The maroon color is plants that are
11 currently under construction where ground has
12 actually been broken. And the high line is firms
13 that have announced intentions to build plants.

14 We expect that most of the maroon
15 projection will be actually built, because ground
16 has already been broken. And only a portion of
17 the upper forecast or projection will actually
18 come to fruition.

19 Ethanol logistics. Large shipments of
20 ethanol began to arrive during December of 2002.
21 And since then there's been no significant
22 problems. Supplies have been delivered by rail
23 and marine vessel from the Midwest and Caribbean
24 sources.

25 With respect to the Caribbean sources,

1 up to 7 percent of the previous year's production
2 of ethanol can be brought in duty free. And this
3 allows this part of the Caribbean Basin
4 Initiative, this allows those firms to compete
5 directly with Midwestern firms.

6 There is a large 54-cent-per-gallon
7 import duty on ethanol, which makes it very
8 difficult for foreign producers outside of the
9 Caribbean to compete with domestic ethanol
10 production.

11 Ethanol's different than gasoline in its
12 method of distribution. It's not shipped through
13 the pipeline from the refiner to the terminals.
14 It's delivered to main staging areas by train or
15 by marine vessel; and then trucked to the
16 terminals, where it's held to be blended with
17 gasoline or CARBOB at the terminal.

18 Technically what refineries are making
19 now is not gasoline. Where the gasoline is
20 technically being made is being made at the
21 terminal. This leads to some hand-waving when we
22 talk about refineries making gasoline. But the
23 sense of it, they continue to make gasoline, at
24 least we call it that.

25 Major modifications were made to allow

1 southern California to receive unit trains. These
2 are full trainloads of ethanol. And this greatly
3 lowers the cost of shipping by train.

4 Refiners have kept ethanol inventories
5 at relatively high levels, as a hedge against
6 interruptions. The ethanol is a small percentage
7 of the gasoline, and if ethanol supplies were
8 interrupted, it would cost a great deal of money,
9 because you would lose the production of gasoline.
10 So we have kept ethanol inventories at relatively
11 high levels and we haven't seen any substantial
12 interruptions of those deliveries.

13 The reason ethanol is delivered by truck
14 rather than blended at the refineries and shipped
15 out by pipeline is that ethanol increases the
16 potential for corrosion and can downgrade the
17 quality of the pipe over the long run.

18 We have another map of sources of
19 ethanol supply. We have the sources here at the
20 bottom. I'll start at the bottom this time, and
21 you can see some sources coming from the
22 Caribbean. We thought that the Midwestern
23 supplies coming by marine would be very important.
24 They've turned out to be not as important as train
25 shipments from the Midwest and worldwide shipments

1 from Brazil.

2 This purple line there coming off from
3 Europe, it says European supply, is residual wine
4 alcohol that has taken to Jamaica and dewatered
5 there. It's value-added. It can fit in under the
6 Caribbean Initiative, under the rules. And it may
7 come to California.

8 I believe most of this stuff that is in
9 the Caribbean right now is now not coming through
10 the Panama Canal, but is going off to the
11 northeastern markets of New York and Connecticut;
12 and we're getting the vast majority of our supply
13 from the Midwest.

14 MR. SMITH: Daryl, quick question on
15 your previous slide. Could you quantify -- can
16 you put a number on the ethanol inventories at
17 high levels? What does that mean?

18 MR. METZ: I can't do that, but it
19 appears that in terms of days of supply of
20 gasoline or CARBOB versus days of supply methanol
21 that would be typically held at a terminal,
22 there's more ethanol held than gasoline to allow
23 for the potential for interruptions.

24 MR. SMITH: Do you have a sense of what
25 that means in terms of days of supply of gasoline

1 production?

2 MR. METZ: I don't.

3 MR. SMITH: Okay.

4 MR. METZ: We can get that number and
5 provide it.

6 With the phase-out of MTBE there were
7 substantial changes to the production process.
8 MTBE made up about 11 percent of the gasoline
9 pool. With ethanol replacing it and blended at 6
10 percent you directly have a 4 percent shortfall.

11 In addition, other changes to the
12 underlying blend stock need to be made and further
13 reducing the pool directly. To compensate,
14 refiners have increased alkylate production,
15 imported more blending components and converted
16 some conventional gasoline to RFG.

17 In addition, more imports of near-BOB or
18 finished gasoline -- well, the near-BOB would be
19 the blending components. And the final answer is
20 production decline is really minimal.
21 Modifications to the refineries were substantial
22 to comply with the modifications to the
23 distribution network, yet the terminals were
24 substantial to allow the blending and distribution
25 of the ethanol. Leading to lots of changes in the

1 market.

2 The demand for imported components is
3 likely to increase due to the blending of ethanol.
4 The blending of RFG3 is more difficult for most
5 refiners outside the United States. And demand
6 for the components to be blended here is expected
7 to rise. And it will be to meet octane levels,
8 low sulfur and reduce volatility properties of the
9 gasoline.

10 In addition, New York and Connecticut
11 have phased out MTBE, and this will increase
12 competition for these products. Lower sulfur
13 levels in gasoline will also increase the demand
14 for cleaner components.

15 And I'm going to speak about the price
16 issues. Let me back up just a second. This
17 increase for the cleaner components all leads to
18 higher prices. And here we have somebody who
19 loves his gasoline despite all its ups and downs.

20 This graph shows the difference of
21 California over U.S. gasoline prices. The reason
22 we've separated, subtracted U.S. prices from
23 California prices is just to look at the impacts
24 of what's going on in California; to control for
25 essentially higher crude prices and any national/

1 international trends.

2 These are sort of part of the problem
3 that we, in California, can look at. Or need to
4 explain and concern ourselves with.

5 Overall we can see prices are going up.
6 And they're -- I mean our price over the U.S.
7 prices are going up. Not only are U.S. prices
8 going up, which we're all aware of, but the
9 difference between our prices and national prices
10 is increasing. And the prices appear to be
11 becoming more volatile, too, meaning more varying.

12 And since -- part of it is prices have
13 always been higher here. Even before we started
14 going to cleaner fuel specifications. But with
15 the higher fuel specifications, we're seeing an
16 increase in prices over the rest of the country.
17 And we are importing more products from farther
18 away leading to less competition to California
19 refiners. Their competition is outside sources
20 that are -- and the local refineries are somewhat
21 protected by the economics of shipping.

22 There's been a steadily increasing
23 demand for transportation fuels; and there's
24 declining spare capacity and inventory levels in
25 California.

1 The elimination of MTBE reduced the
2 supply of gasoline to California, and we have
3 higher average fuel taxes. This also explains
4 part of the difference between our retail prices
5 than on that first graph. Because it was a
6 comparison of retail to retail.

7 The average differences increased from
8 just over 10 cents in 1995 to over 27 cents since
9 January of 2003. This 27 cent figure is really
10 substantial, but it's really only a short-term
11 figure. So, I wouldn't want to use that to
12 project out forever that that's the new baseline.

13 DR. TOOKER: Daryl, do you have any
14 information on what the trend in gas tax is as a
15 component of that increase has been over time, or
16 have they been flat?

17 MR. METZ: We've increased our prices
18 in, or our taxes back in, I believe 1990. I
19 haven't compared that to all the other states.
20 It's a difficult -- I mean what -- compared to
21 what?

22 DR. TOOKER: But there hasn't been any
23 recent increase in gas tax?

24 MR. METZ: There hasn't been any recent
25 increase in gas taxes. With the blending of

1 ethanol the federal tax has fallen, but the cost
2 of the ethanol has gone up by -- is a more
3 expensive component. So that lower federal tax
4 somewhat masks the higher price of ethanol, and
5 allows it to be blended competitively. Because by
6 blending it you can sell your fuel at a lower tax.

7 The volatility, which we are calling
8 price swings, have also increased over time. And
9 the market is geographically isolated. That's
10 always been true. The changes in the fuel
11 specifications have led to a greater isolation.

12 Refinery problems have resulted in price
13 spikes, sometimes to the excess of 50 cents per
14 gallon; and we expect this volatility to continue
15 if quality imports, meaning California grade
16 gasoline, or the components to make California
17 gasoline, are scarce in the market.

18 There's also bottlenecks with respect to
19 the infrastructure to bring these products in.
20 The bottlenecks only occur when there's a
21 shortage. And so they're not always there, but
22 they exacerbate the problem when it occurs.

23 PRESIDING MEMBER GEESMAN: Daryl, --

24 MR. METZ: And --

25 PRESIDING MEMBER GEESMAN: -- on page 27

1 you talk about the elimination of MTBE has reduced
2 the supply of gasoline in California. And earlier
3 you talked about the 11 percent, 6 percent, i.e.,
4 5 percent difference. And that's, you know, we've
5 talked about that for years, as something that
6 would happen when you phased out the MTBE.

7 But on chart 23 we kind of skipped over
8 fairly rapidly a fairly bold statement you made
9 about summer 2004 production decline estimated to
10 be minimal. I guess I've got my fingers crossed
11 on that statement, still, but I just wanted to
12 point out --

13 MR. METZ: I -- I --

14 PRESIDING MEMBER GEESMAN: -- it's tough
15 to have your cake and eat it, too.

16 MR. METZ: I guess I would have my
17 fingers crossed, too. We didn't want to say that
18 there's -- we don't have any evidence of any
19 impending crisis, but we do have very high prices
20 out there right now. And --

21 PRESIDING MEMBER GEESMAN: Lately we've
22 never had notice of impending crisis because --

23 MR. METZ: That's good.

24 PRESIDING MEMBER GEESMAN: -- they're
25 continual.

1 (Laughter.)

2 MR. METZ: And part of the difficulty
3 here with checking the numbers as we receive
4 reports from industry is what to count as an
5 import, what to count as an import of a blending
6 component, what to count as an import of a
7 finished product.

8 And so when we talk about production
9 decline being minimal, if someone's importing
10 almost gasoline, or someone else is importing
11 gasoline, in practice they're really the same
12 thing. But in our reporting they're different.

13 So, I don't expect the market to be
14 substantially shorted, but I do expect swings in
15 how the market is supplied.

16 PRESIDING MEMBER GEESMAN: But
17 something's wrong out there. I really wasn't
18 putting you on the spot to answer that; I just
19 wanted to more or less rhetorically point out the
20 difficulty. Thanks.

21 MR. METZ: Thank you. In conclusion I
22 would like to say that what we've seen from all of
23 this is that there's been changes in the sources
24 of crude; there's shifts in where the crude's
25 coming from; decline in Alaska and increase in

1 foreign crude. There's been changes in fuel
2 specifications. And there's been changes in the
3 way that the finished products are transported
4 around the state and delivered to California.

5 And all of these changes have led to
6 changes in the kinds of infrastructure we're
7 dependent on, and the change in the need for
8 infrastructure, or what's needed.

9 And I'll leave you with that.

10 PRESIDING MEMBER GEESMAN: Thank you,
11 Daryl. Rick, what's up?

12 MR. BUELL: Our next speaker is Dean
13 Simeroth from the Air Resources Board. I'd like
14 to thank Dean for agreeing to show up and give a
15 little background on what the Air Resources Board
16 is doing on fuel specifications.

17 MR. SIMEROTH: My name is Dean Simeroth;
18 I'm a Branch Chief in the Air Resources Board. My
19 branch does the recommendations to the Board on
20 motor vehicle fuel specifications. We also
21 monitor the implementation of those
22 specifications.

23 And we're involved in working with the
24 local air pollution control districts and the
25 control of air emissions from oil and gas

1 production, refining and marketing operations. So
2 I track a lot of the activities parallel to a lot
3 of the activities here at the Energy Commission.
4 And for a lot of years we've been working very
5 closely with the Energy Commission Staff on our
6 regulatory and other activities. And that's, I
7 think, been beneficial to both agencies.

8 ASSOCIATE MEMBER BOYD: Good morning,
9 Dean; seems like old times, doesn't it.

10 MR. SIMEROTH: Yes, thank you, Jim. It
11 is somewhat.

12 Starting out, basically air quality
13 problem, as you've heard, is we've got a lot of
14 cars and a lot of people. And we have a climate
15 that's conducive to that.

16 In our activities we treat the vehicles
17 and the fuels as a system; as a result we work
18 closely with the motor vehicle control specialist
19 at the Board. And we try to have the most
20 flexible proposals we can and still maximize air
21 pollution benefits. And you also will see that
22 we're now getting into lubricants as well as the
23 fuels.

24 Health and Safety Code directs us to
25 achieve the maximum feasible reductions and

1 basically all emissions. And we also were charged
2 in the Health and Safety Code with the MTBE
3 removal.

4 As you can see, we started in 1971 in
5 regulating motor vehicle fuel components. And as
6 recently as last July we did our last regulation
7 and will probably go back to the Board in November
8 for some additional ones that I'll touch on later.

9 Both California and federal diesel fuel
10 regulations, briefly. For sulfur, the current
11 requirements in California for both on- and
12 offroad is 500 parts per million sulfur. Federal,
13 the requirement is only for onroad.

14 In June 2006 in both California and
15 nationally the sulfur standard goes down to 15
16 parts per million. And in this case the
17 California and federal government are now both
18 addressing on- and offroad.

19 Unlike the federal we also have aromatic
20 hydrocarbon standards for motor vehicle diesel
21 fuel. This is probably the major difference
22 between us and the federal for diesel fuel
23 specifications. Our regulation allows flexibility
24 for the aromatic hydrocarbon standards; it allows
25 refiners to qualify alternative formulations that

1 can achieve an equivalent emission benefits.

2 Almost all the diesel is refined to
3 those alternative formulations today. We have
4 some 25 certified to date, which probably less
5 than five account for most of the diesel fuel.
6 There is some 10 percent still may.

7 Looking at California and nationally,
8 again the major difference is in aromatics. We're
9 about 19, 20 percent; nationally it's in the mid
10 30s. Cetane number, we're around 50 cetane.
11 Cetane for diesel is the octane equivalent for
12 gasoline.

13 Okay, the federal government, if you
14 think ours are complex you should watch the feds
15 do these regulations. In June 2006, the same date
16 as ours, the federal government implements their
17 15 parts per million sulfur for onroad. That's
18 implemented through 2010. So, various percentages
19 of their fuels have to fall under that, and then
20 ratchets down and gets, as you might suspect,
21 complex.

22 Recently they also included marine,
23 that's harbor craft, and locomotive diesel fuel
24 under their sulfur requirements. And those will
25 go to 15 parts per million June 1, 2012.

1 Our gasoline regulations, California
2 phase three specifications are shown here. I
3 won't go through all of them. There are eight
4 specifications. We adopted specifications for the
5 properties of gasoline shown here as part of our
6 phase two back in 1991; implemented in '96. This
7 was implemented December 31, 2003, or basically
8 January 1st of this year.

9 I'd like to pay attention to the sulfur;
10 the new limit is 20 parts per million down from
11 the previous 40. The cap limits for sulfur were
12 at 80, going to 60 this year, and going to 30 next
13 year.

14 We also allow flexibility for sulfur.
15 We have a so-called predictive model; that's a
16 mathematical model that relates the properties of
17 gasoline as they affect emissions to each other,
18 allow refiners to define their own formula as long
19 as they stay within the cap limits and achieve
20 equivalent emission reductions. Then, again,
21 almost all California gasoline is under the
22 predictive model.

23 PRESIDING MEMBER GEESMAN: I'm not clear
24 what you mean when you say all California gasoline
25 is currently under the predictive model.

1 MR. SIMEROTH: The flat limits that you
2 saw on the chart, let's see if I can back this up,
3 here are what goes into the predictive model for
4 the refiner to determine equivalency using the
5 mathematical model.

6 So they can reduce sulfur down to say 5,
7 and increase aromatics up to 30, as an example.
8 And -- they can trade off that for other
9 properties, particularly the 50 percent
10 distillation temperature. So they can sort of
11 fine-tune how their refinery's configured to --

12 PRESIDING MEMBER GEESMAN: Okay.

13 MR. SIMEROTH: -- maximize -- or
14 minimize their costs and maximize the production.

15 PRESIDING MEMBER GEESMAN: So that's the
16 ARB's effort then to afford some flexibility to an
17 individual refiner?

18 MR. SIMEROTH: That is correct.

19 PRESIDING MEMBER GEESMAN: Okay.

20 MR. SIMEROTH: And again about all of it
21 is under the predictive model we are using ethanol
22 almost exclusively about 5 percent in the San
23 Francisco Bay Area; and it's made without use of
24 ethanol. That's the area that is not subject to
25 the federal reformulated gasoline requirements

1 which I'll touch on in just a moment.

2 DR. TOOKER: Dean, I have a question.

3 MR. SIMEROTH: Sure.

4 DR. TOOKER: The former speaker was
5 talking about the fact that more and more gasoline
6 production in California is not being done in
7 refineries, but, in fact, as a result of blending
8 at other facilities.

9 I assume the regulations you're talking
10 about here apply to those other facilities, as
11 well?

12 MR. SIMEROTH: What they apply to is any
13 gasoline imported into the state. We treat
14 imported gasoline as gasoline that's produced in
15 the state. So when it arrives here to go into our
16 pipelines it's got to comply. And how they blend
17 it to do that is up to them.

18 Okay, federal reformulated gasoline,
19 there's nine areas in the country: Chicago, the
20 northeastern states, I believe Dallas and
21 California are the main areas around the country.
22 They had a phase one and phase two. Their phase
23 two went into effect January 1st of 2000.

24 And they also have adopted a nationwide
25 sulfur standard. Their sulfur average is going to

1 be 30 parts per million, which would be our cap
2 next year. And they'll have an 80 parts per
3 million cap. They'll be implementing that cap
4 starting January 1, 2004. The sulfur standards on
5 gasoline get gradually more stringent. And
6 January 1, 2006, they have to be fully compliant.

7 We think most refiners will be compliant
8 early because they're trading off compliance with
9 the gasoline to get some more flexibility on the
10 diesel or vice versa. There's trading back and
11 forth on those regulations.

12 The parts of California that are subject
13 to minimum oxygen requirement that's part of the
14 federal reformulated gasoline regulations shown
15 here, except for the San Francisco Bay Area it's
16 basically all the major urban areas in the state.
17 That accounts for about 80 percent of the gasoline
18 sold in the state. And -- the 900 million gallons
19 of ethanol.

20 MR. SMITH: Dean.

21 MR. SIMEROTH: Yes.

22 MR. SMITH: As the sulfur regulations
23 ratchet down the sulfur content, how is that going
24 to affect production of fuel?

25 MR. SIMEROTH: In California we will be

1 below the federal sulfur requirements of today.
2 We are below them today. It won't affect
3 California.

4 One of the things that could come out of
5 this is we get more low sulfur blend stocks being
6 available as a result of the federal sulfur
7 requirement becoming more consistent with ours for
8 both gasoline and diesel. And we're hoping that
9 helps.

10 We're going to try to monitor that and
11 see if that becomes reality.

12 MR. SMITH: So by 2006 when sulfur
13 limits are to be at 15 ppm?

14 MR. SIMEROTH: For the diesel?

15 MR. SMITH: Yes.

16 MR. SIMEROTH: Yes. All of California's
17 diesel fuel, June 1, 2006, in terms of it being
18 produced, are to meet the 15 parts per million.
19 We think that's going to happen, and it appears at
20 the moment to be on schedule. We require the
21 refiners to give us status reports periodically to
22 make sure that that's happening. If it's not,
23 then we can go to the Board with recommendations
24 on how to deal with that.

25 MR. SMITH: I guess my question is more

1 directed at once that standard hits, what effect
2 will that have on refiners' ability to produce
3 diesel fuel? Will it lower the amount of diesel
4 produced per unit of oil input?

5 MR. SIMEROTH: We're working with the
6 Commission Staff to do the survey to find the
7 answer to that. Our initial survey indicated that
8 the production diesel fuel will stay about the
9 same.

10 Potential modifications. The South
11 Coast Air Quality Management District, when the
12 Air Resources Board approved their state
13 implementation plan in October 2003, included an
14 element requiring staff to evaluate the potential
15 to achieve additional emission reductions from
16 future reformulation of gasoline.

17 We're in the midst of doing that.
18 Hopefully by the end of this year we'll have it
19 complete. And we're hoping to take advantage of
20 development of the cleaner vehicles and how
21 they're handling gasoline, their ability to say
22 deal with very -- different than our current
23 specifications, as a possible example.

24 We're also looking at our regulations,
25 is there a better way to do it. Did we do it

1 right the first time; can we improve it. Will
2 that help or hinder. So it's a fairly wide-
3 sweeping review of our current regulatory
4 standards.

5 For example, we could replace the flat
6 limits with a new set of caps. Could do away with
7 the predictive model and tell the refiner, as long
8 as you stay below those caps you're okay.

9 The distillation temperature, that's the
10 temperature that various percentages of gasoline
11 boil off at. Could be done by a new driveability
12 index or a distillation index, depending if you're
13 talking to the refiners or the oil -- or the
14 automobile manufacturers or the oil companies.
15 They both have their preference for the term.

16 We're a long ways from making any
17 recommendations on this. We've got at least
18 another four months of work to decide if it's even
19 feasible.

20 This year we will be going to the Board
21 probably in November for fuel requirements for
22 intrastate locomotives and marine harbor craft.

23 Probably the timeframe for
24 implementation would be late 2006 or 2007.

25 There's a number of activities we have to

1 complete, including an emission inventory, cost
2 effectiveness and the impacts on the ability of
3 the refiners to supply these sources. Right now
4 they're able to use any fuel. And so we want to
5 find out what the impact on supply is when you
6 have to go to a fully complying fuel. When I say
7 any fuel they're able to go up to 3000 parts per
8 million sulfur, so it's wide-ranging at the
9 moment.

10 Our workshop schedules, we're in the
11 middle of the activities. We should have a staff
12 report about October 1st for a Board meeting date
13 in mid November. And, of course, these are always
14 subject to changes as things evolve.

15 And that completes my presentation and
16 updating on the regulatory status.

17 PRESIDING MEMBER GEESMAN: Thank you,
18 Dean. I had one question on volume of intrastate
19 locomotive or marine fuels. Do you have a sense
20 as to what kind of volumes we're talking about?

21 MR. SIMEROTH: We're looking total
22 consumption for intrastate is about 1 percent of
23 our diesel fuel, motor vehicle diesel fuel
24 consumption. The interstate is probably 5, 6
25 percent.

1 PRESIDING MEMBER GEESMAN: Okay, thank
2 you.

3 MR. BUELL: Our next speaker is Gordon
4 Schremp. He's going to speak to historical
5 petroleum use and demand forecast.

6 MR. SCHREMP: Thank you, Rick. For
7 those sitting in the audience and you're looking
8 at that clock up there thinking, man, time is
9 crawled too slow, it doesn't work. So, we're
10 zipping along just fine here.

11 I'll speed up; we're just going to go
12 through a little historical and forecasted demand.
13 The purpose is to give you a little context of
14 where we see the need for additional fuels in
15 California over the next, say, 20 years. Or maybe
16 we won't.

17 (Pause.)

18 MR. SCHREMP: Demand, right now we're
19 expecting about 16 billion gallons for gasoline in
20 California is the estimate for 2004. And diesel
21 fuel, which is onroad highway diesel, is expected
22 to be less than one-fifth of that.

23 As you can see from the next set of
24 bullets, in California, as a share of the United
25 States we're pretty large; we've about 12 percent

1 of gasoline and we're a smaller subset for diesel,
2 or relative percentage, about 7 percent. And
3 that's on-highway, doesn't include fuel oil which
4 you see used heavily in the northeast for heating
5 purposes.

6 Demand for fuels is expected to continue
7 to go up in California. That's not a change in
8 trend, anywhere from 1.5 to 2.3 percent is what
9 you'll see a couple graphics from now.

10 Refinery capacity, in these last few
11 bullets, has been touched on before, but I want to
12 just emphasize them once again. They're important
13 for the following graphics. And that is refinery
14 capacity is basically -- I mean capacity increases
15 have been small. There haven't been large
16 projects in California to increase capacity, that
17 is. No large projects to comply with new fuel
18 specifications.

19 Some of the recent smaller projects are
20 mentioned here, ConocoPhillips, Valero, and
21 Paramount Petroleum projects. And I'll talk a
22 little bit about Paramount later in the
23 presentation.

24 We are at or near capacity, and I want
25 to draw the analogy with the electricity markets.

1 And that is you can see some spare capacity,
2 quote-unquote, in the electricity market that is
3 available to call upon quickly when demand
4 profiles change, and this is during the day. In
5 California that's certainly not the case; in the
6 United States that's really not the case.

7 Refineries in California operate at all-
8 out when they are operating, 100 percent capacity.
9 The units are designed to do so. So there's no
10 spare capacity just sitting there waiting to ramp
11 up when one of the other refineries has a minor
12 problem or major problem.

13 PRESIDING MEMBER GEESMAN: Let me ask
14 you on that, Gordon, --

15 MR. SCHREMP: Yes.

16 PRESIDING MEMBER GEESMAN: You invoke
17 the electricity parallel. In electricity we are
18 attempting to impose a 15 to 17 percent reserve
19 margin from a planning perspective on peak load.
20 Do you have any sense as to what spare capacity
21 may exist in today's refineries compared to peak
22 load?

23 MR. SCHREMP: I think during the summer
24 months is what we usually focus on, because
25 obviously highest gasoline demands are in that

1 period of time. More difficult specification to
2 meet because of the volatility standard is lower.
3 And because of that reason the refineries are
4 really essentially maxed out. So there's really
5 not much swing capacity, per se.

6 Additional supply can be brought online
7 by drawing down inventories more heavily. Some
8 marketers, say some of the traders will bring in
9 gassing components in advance of the spring; store
10 it and then wait for the market to, you know, have
11 an event, if you will. And so that's some
12 additional strategic stocks. That's another way
13 of bringing supply online rather quickly.

14 Other than that it's what Daryl talked
15 about. We're time and distance; two to six weeks
16 away; we're shorter distance to the Pacific
17 Northwest where we are receiving some products
18 from up there. I can't speak to those refineries,
19 but they may have a little spare capacity in the
20 summer months, I don't know exactly. And then it
21 could load barges quickly. But it's small and
22 time sensitive.

23 Now, in the winter months refineries can
24 produce more gasoline because the volatility
25 standard is higher and demand is lower. And

1 that's usually when they do produce higher
2 quantities and build inventories in advance of
3 doing their planned maintenance in the spring,
4 natural cycle, if you will.

5 Last point, imports. Growing important
6 source of supply for California, unless, of
7 course, that demand trend is changed.

8 Speaking of demand, what does drive
9 demand in California, and, for that matter, in
10 other parts of the United States. People. More
11 people moving to California equates to more
12 vehicles. And those vehicles are driving more,
13 and that's called vehicle miles traveled. A
14 higher percentage as time goes by.

15 And increases in household income. And
16 I think in relative percentages here you're
17 looking at about 1.4 percent growth in population
18 and 1.65 percent growth in the vehicle miles
19 traveled, and about 2.5 percent growth in
20 household income over the forecast period.

21 And a couple demand scenarios up here.
22 We call them basecase and high case and the
23 purpose of this is just to show you what increased
24 imports may look like under two different
25 scenarios. Not to say that we believe demand will

1 absolutely be this over the next 20 years.

2 And some of the factors that can made
3 demand higher or lower. Certainly the high case
4 if you lower prices and higher vehicle miles
5 traveled growth, then in the basecase you can see
6 higher demand for gasoline.

7 And some of the local supply assumptions
8 moving forward, and these would be obviously in
9 the very near term. The supply assumption assumes
10 the Shell Refinery does close October 1 in
11 Bakersfield, as announced by Shell. If it is sold
12 to another refiner and continues in operation,
13 that would improve the supply outlook definitely.

14 Paramount Petroleum is a refinery in
15 southern California. They have received their
16 application to expand their facility to make
17 California-compliant fuels. We expect those to be
18 online by the end of this year or January of next
19 year.

20 PRESIDING MEMBER GEESMAN: Do you have a
21 volume number for the Paramount project?

22 MR. SCHREMP: Yes, I do, it's 7.5
23 thousand barrels a day of CARB gasoline, and 8.7
24 thousand barrels a day of CARB diesel fuel. And I
25 will also talk to that in the last presentation,

1 because you guys get to see me twice.

2 All right. Here, taking those scenarios
3 and taking our supply assumptions for the refiners
4 and putting them all together in a graph. And the
5 red vertical line represents the break point where
6 on the left, historical. Those are the actual
7 numbers. And on the right-hand side is our
8 forecast periods for the two scenarios. The
9 highs, of course, is the higher demand case. And
10 then we draw some vertical arrows.

11 You'll see if -- at least this part
12 works -- here, this part is just showing the
13 difference between what we call supply from
14 California refineries, the lower grey hatched line
15 here. And as you see, you get into the outer
16 period, 2023, it's very significant, 9.2 billion
17 gallons.

18 And that would be all made up by
19 additional imports above and beyond what's coming
20 into California today.

21 Now, one might look at this graph and
22 say, well, that's rather odd; you're tracking
23 closely to demand here, then you're going to
24 deviate down like that. Well, why won't they
25 continue tracking along with the curve?

1 Well, actually the instate supply number
2 here includes imports of blending components that
3 refineries mix together to make more gas at the
4 refinery; includes MTBE, which is 11 percent by
5 volume of gasoline. And so that's all added
6 together and shows up as production right here.

7 So, actually if we were to redraw this
8 line as just sort of cooking the crude oil and not
9 importing it, we'd come down here, lower. So I
10 just wanted to clarify that, why it looks a bit
11 odd.

12 Anything else to take away from this,
13 certainly if you have lower demand than what we
14 show on this graphic, then the needs for
15 additional imports will be less, moving into the
16 future. The needs for additional imports.

17 PRESIDING MEMBER GEESMAN: You do show
18 the supply from California refineries going up,
19 though. At what rate does that climb, slight
20 though the angle is?

21 MR. SCHREMP: The assumed rate of modest
22 expansion is .5 percent, or 0.5 percent per year.
23 Small projects --

24 PRESIDING MEMBER GEESMAN: How did you
25 derive that?

1 MR. SCHREMP: Pardon me?

2 PRESIDING MEMBER GEESMAN: How did you
3 derive that number?

4 MR. SCHREMP: We looked at some
5 previous, over the last say five, six years, some
6 of the small capacity expansion projects. Now, I
7 must note that just recently some of the projects
8 I mentioned were a bit higher than that .5
9 percent. But we do not see any other
10 announcements by the refiners over the next, say,
11 three to four or five years of additional
12 projects, other than the ones we've already
13 mentioned here, and the ones I'll talk about in
14 the last presentation.

15 DR. TOOKER: Gordon, --

16 MR. SCHREMP: Yes.

17 DR. TOOKER: -- can you clarify for me
18 whether or not that lower dotted line does include
19 blending of imported products in addition to
20 refining of crude?

21 MR. SCHREMP: Yes, it does include both
22 coming into California. To the point we are now
23 we're assuming that those imports that have been
24 coming in, the blendstocks and the CARBOB, they're
25 being blended up to make fully complying gasoline.

1 And you also see some blending components for
2 diesel fuel, as well; smaller, but they are there.

3 Yes, we assumed those continue at say
4 today's rate. And then the refiners will do some
5 expansion to increase the ability to have more
6 through-put on crude oil as we move into the
7 future.

8 DR. TOOKER: Thank you.

9 MR. SCHREMP: And then additional
10 imports will come in on top of that.

11 MR. SMITH: Gordon.

12 MR. SCHREMP: Yes.

13 MR. SMITH: I have a question about the
14 increase in gasoline production. Maybe you can
15 clarify something for me.

16 Refineries typically produce a suite of
17 products from every barrel of oil that they use as
18 input. And will switch from product to product as
19 the economics and markets change, prices for
20 commodities change.

21 And they can -- I guess my first
22 question is how easily do they switch from product
23 to product. And then secondly, is the increase in
24 gasoline production, shown by that curve, the
25 result of just simply switching to produce more

1 gasoline versus any number of other products? Or
2 are they actually making physical changes to the
3 refinery that result in a more permanent
4 production, increased production of gasoline? Do
5 you understand the distinction I'm trying to make?

6 MR. SCHREMP: Yes, Mike. The bottom
7 curve supply from California refiners assumes that
8 crude oil throughput in the refineries does
9 increase .5 percent per year.

10 MR. SMITH: Crude oil throughput.

11 MR. SCHREMP: Crude oil throughput. And
12 you're right, as the crude oil is processed, a
13 slate of products is produced. And in that same
14 mix they are importing other feedstocks to the
15 refinery into other units that follow the crude
16 oil processing that aren't fully maximized or
17 fully utilized. And so these other unfinished
18 oils, if you will, will come in and be used to
19 increase the capacity in those down-stream units,
20 maximizing the output of fuels currently today.

21 MR. SMITH: Thanks for the
22 clarification.

23 MR. SCHREMP: You're welcome.

24 COMMISSIONER PFANNENSTIEL: Excuse me,
25 Gordon.

1 MR. SCHREMP: Yes.

2 COMMISSIONER PFANNENSTIEL: How much of
3 a difference between the basecase and the high
4 case is caused by price and how much by the
5 increase in vehicle miles?

6 MR. SCHREMP: I think that there is some
7 price sensitivity in the modeling if you impute
8 higher prices, you're going to see lower demand in
9 the estimate going forward. But the biggest
10 driver is, and probably pun intended there, is the
11 vehicle miles traveled rate, 1.65 percent is
12 increasing at a rate greater than that of the
13 population, 1.4.

14 So, it's more vehicles; and we are
15 seeing the fuel economy is not changing the fleet
16 of vehicles appreciably. Certainly the farther
17 out in the future you go, you can reduce the
18 demand with, say, more aggressive CAFE standards
19 and penetration of alternative fuel vehicles.
20 Those can have an impact.

21 But over the last -- give you an
22 example. 1998 gasoline was 98 cents a gallon,
23 retail. And today it's a wee bit more than that.
24 And as you can tell by the actual demand slope, it
25 still went up. So, is there price sensitivity?

1 Do people respond to price signals? Yes, they do.
2 But it seems to be overwhelmed a bit by the other
3 factors like increasing population growth and
4 vehicle miles traveled.

5 ASSOCIATE MEMBER BOYD: Gordon, to
6 extend this issue, I think we've been talking
7 around here of late that demand seems to be rather
8 price inelastic; that Californians don't have many
9 other alternative choices. So, like it or not,
10 they're paying the higher prices.

11 Does the model that you referenced
12 include that as one of its premises, not much
13 price inelasticity? Or do you factor in changing
14 price elasticities over the range of possible
15 prices?

16 We keep talking about well, when the
17 price gets at this point we'll see some public
18 reaction. But we don't see much. You know, the
19 magic barrier, \$3 a gallon, I begin to wonder if
20 it's any barrier at all in that the public has no
21 alternatives to speak of to any great degree to
22 move themselves about in this region, if not the
23 entire western United States.

24 MR. SCHREMP: Commissioner Boyd, there
25 are assumed elasticities in the modeling effort

1 moving forward in the forecast period. I don't
2 know exactly the quantification of those
3 percentages, but I can get back to you on that.

4 COMMISSIONER PFANNENSTIEL: To add on to
5 that it just seems to me, from what we know
6 happens, that the price elasticities would be
7 greater in the outer years, as you have more time
8 to change out your vehicle stock and all of that.

9 So I wonder whether the model picks that
10 up?

11 MR. SCHREMP: Once again, I can get back
12 to you on those details on modeling.

13 COMMISSIONER PFANNENSTIEL: Thank you.

14 MR. SCHREMP: Thank you.

15 PRESIDING MEMBER GEESMAN: I guess I
16 would also throw in one final question on it.
17 Probably for the benefit of those circulating
18 their petitions at home, does this price
19 elasticity question suggest to you that if we're
20 trying to reduce demand, an engineering approach
21 such as the CAFE standards, may be greatly
22 preferable to a fuel tax approach, such as Mr.
23 Sparano continually warns us about?

24 MR. SCHREMP: Well, just noting from the
25 recent history, the example I gave of much lower

1 retail prices, in the near term, 1998, it's only
2 six years ago, still significantly higher demand
3 numbers when gasoline retail prices have doubled.
4 So.

5 ASSOCIATE MEMBER BOYD: This all reminds
6 me of a study I think by the Congressional Budget
7 Office about a year ago that indicated that taxes
8 were a far better way than CAFE or efficiency, but
9 history, to me anyway, has not proven that out so
10 far. So I do think we need to look at assumptions
11 quite a bit, and actual practices over time.

12 MR. SCHREMP: Final slide. Obviously
13 the gap that was illustrated in the previous
14 graphic is growing over time. And that gap being
15 assumed to be filled with imports, additional
16 imports.

17 So what can be done. Obviously there
18 are short-term approaches, long-term approaches,
19 but the reality is the long-term approaches do
20 take a significant amount of time to have an
21 impact on the demand. And that's why during the
22 interim we do expect the demand to continue to
23 grow at some of those rates shown. And we expect
24 the influx of imports to increase, which is why
25 we're here today, because we're worried about the

1 infrastructure being adequate to handle that
2 additional increase for both crude oil and
3 petroleum products.

4 And when I say a shift in regional and
5 statewide perspectives may be required, and that's
6 because we believe the nature of these petroleum
7 projects will shift away from being centered on
8 the refineries, for expansions, to pipelines,
9 marine terminals, dredging, storage tank
10 facilities. That's going to be a big shift, and
11 that's a change. I'll talk about that in the
12 final presentation in greater detail.

13 And the long-term strategies of which
14 Dan Fong will speak to you next. Certainly there
15 are multiple approaches over the longer term. You
16 have more options available to you, more time for
17 them to work. And the implementation, bottomline
18 is they'll take time.

19 And I'll hand it over to Dan Fong unless
20 you have any other questions.

21 MR. FONG: Before I jump into my
22 presentation let me just answer the question posed
23 by Commissioner Boyd regarding the elasticity
24 characteristics of our model. This is not an
25 input parameter. The model that we use is a

1 consumer preference model; and the elasticities
2 that result come from the predicted consumer
3 choice behavior.

4 And that model, based upon the input
5 data that we have, shows a very small, if not
6 imperceptible, consumer change whenever prices go
7 up. So there's clearly a very strong demand on
8 the part of the consumer to maintain their
9 mobility.

10 PRESIDING MEMBER GEESMAN: Those
11 assumptions are based on consumer surveys?

12 MR. FONG: Both surveys, and then the
13 model is calibrated to actual results.

14 PRESIDING MEMBER GEESMAN: What's the
15 vintage of those surveys?

16 MR. FONG: I believe we just updated
17 some of those surveys last year. And so it's as
18 up to date as we probably can make it.

19 PRESIDING MEMBER GEESMAN: Thank you.

20 MR. FONG: My presentation will focus on
21 the few points. I will give the audience some
22 background on AB-2076, which is the legislation
23 that directed the Energy Commission and the Air
24 Resources Board to explore strategies in reducing
25 California's petroleum dependence. I will touch

1 upon the key recommendations that came from that
2 work. And then I'll show some graphics that
3 compare the future demand if various demand
4 reduction measures were implemented.

5 2076 was enacted in the year 2000. It
6 asked that the Energy Commission and Air Resources
7 Board put forth a recommended strategy for
8 reducing the state's petroleum dependence. We
9 were asked to present statewide goals for reducing
10 the rate of growth of petroleum fuel use. And we
11 were to make recommendations on how to increase
12 transportation energy efficiency; the use of
13 nonpetroleum fuels and the use of advanced
14 transportation technologies.

15 The three key goals that came from this
16 work are as follows: An overall petroleum
17 reduction goal was recommended to reduce the
18 demand for onroad gasoline and diesel to 15
19 percent below the 2003 demand level by 2020. And
20 to maintain that level for the foreseeable future.

21 We were asked to work, or we asked that
22 the Administration and the California Delegation
23 work with other states to establish national fuel
24 economy standards that double the onroad fuel
25 efficiency of new cars, light trucks and SUVs.

1 And then lastly we urged the Legislature
2 to establish a goal to increase the use of
3 nonpetroleum fuels to 20 percent by 2020, and 30
4 percent by 2030.

5 This slide shows some comparative demand
6 curves. And I think what we're trying to show
7 here is the temporal effect of implementing both
8 some near-term measures and longer term measures
9 that might reduce our onroad demand for gasoline
10 and diesel.

11 The upper dashed line labeled number 1
12 is the basecase demand line that Gordon previously
13 showed. It is growing at 1.5 percent per year
14 growth rate.

15 The line below that's labeled number 2
16 is the projected demand that might occur if we
17 were to implement a number of near-term demand
18 reduction options. These include more efficient
19 replacement tires; mandating the purchase of best
20 in class fuel economy vehicles by government
21 fleets; and improving the statewide maintenance
22 practices for our light duty fleet.

23 The third line, which is the yellow or
24 gold line, shows the demand impact if we were to
25 increase new vehicle fuel economy to an average of

1 30 miles per gallon. The red line is the current
2 demand or the supply line that Gordon also
3 previously showed you.

4 And then the fifth line in deep blue,
5 that is the potential demand if we were to have a
6 new vehicle fleet fuel economy of 40 miles per
7 gallon.

8 And what this shows here is that
9 although the near-term demand reductions, I think,
10 are still important, they obviously make up only a
11 very small percentage of our projected demand.

12 The larger reductions that are possible
13 come from new vehicle fuel economy. But even
14 those take considerable time, and that's because
15 of the large fleet that we have and the relatively
16 slow turnover of those cars. The average vehicle
17 life here in California is probably close to 16
18 years. So every year approximately one-sixteenth
19 of that fleet turns over. So even if those
20 vehicles were of much higher fuel economy
21 performance, it just takes a very very long time
22 to change the direction of our demand curve.

23 COMMISSIONER GEESMAN: Now, Dan, it was
24 a year ago when we adopted those recommendations.
25 As it relates to CAFE standards there's been no

1 perceptible progress in that year.

2 Does your chart reflect moving that goal
3 for CAFE standards out a year, or is this last
4 year's chart?

5 MR. FONG: This is last year's chart.

6 COMMISSIONER GEESMAN: Thank you.

7 MR. FONG: On this slide we show the
8 potential effect from a couple nonpetroleum fuel
9 options. These options were a couple of our
10 leading candidates in the 2076 study.

11 Again, we show the projected basecase
12 demand in the dashed line. The second line there,
13 which is a deep blue, shows the effect of
14 increasing or adding to the state's diesel fuel a
15 component which we call Fischer Tropsch diesel.
16 This would go into California's current diesel
17 formulation. This particular scenario uses a
18 formulation of one gallon of Fischer Tropsch
19 diesel for every two gallons of California diesel.
20 So it's essentially a one-third type blend. And
21 that's based upon the alternative fuel
22 specifications that Dean Simeroth discussed in one
23 of his slides.

24 And so we're saying that if one-third of
25 today's diesel used Fischer Tropsch diesel we

1 could make a compliant California diesel using,
2 for instance, a federal diesel as the base diesel
3 formulation.

4 And then the gold or yellow line labeled
5 number 3 shows the potential impact if, for
6 instance, we started to see large numbers of
7 hydrogen fuel cell vehicles entering our fleet.
8 This scenario uses a fleet maximum of 20 percent,
9 and I think that would be achieved in the year
10 2020.

11 Again, what this shows is the length of
12 time it takes to reduce your demand for onroad
13 gasoline and diesel with any kind of nonpetroleum
14 fuel strategy. You have a lot of cars that you
15 would need to change over in order to materially
16 see a significant demand reduction.

17 The last slide I have shows the sort of
18 combined effect of some of these petroleum
19 reduction strategies. Again, the upper line is
20 the demand forecast that was generated as part of
21 2076. It is slightly different than the current
22 demand line that was shown previously, although
23 what we represent here is essentially consistent
24 with that newer demand line, and that is if our
25 supply is incrementally increasing through

1 refinery creep, we still have this ever-growing
2 gap between our increasing demand and our ability
3 to meet that demand with instate supply.

4 So, on the bottom section of this graph
5 in the green we have the projected gasoline and
6 diesel fuel use over time if a variety of these
7 petroleum reduction mechanisms were to be
8 implemented.

9 The sector of the graph just above the
10 gasoline and diesel shows the ethanol contribution
11 which we're currently receiving; that's a
12 nonpetroleum fuel. The segment just above the
13 ethanol segment is the Fischer Tropsch fuel use
14 that we used in one of our scenarios. It's
15 followed by an increment from hydrogen for fuel
16 cell vehicles.

17 And then that section which is shown in
18 white between the line for the hydrogen fuel cell
19 and the demand line, that is made up by improved
20 energy efficiency.

21 And the point that we show here is that
22 if you include ethanol in Fischer Tropsch diesel
23 as part of the instate supply, since it would have
24 to be brought into California; it's a liquid fuel.
25 It would still have to go through the

1 infrastructure that we have here instate to handle
2 our onroad fuel distribution, it isn't until
3 roughly 2014 that we see a match between our
4 liquid fuel demand and the instate supply.

5 And so in this decade between today and
6 this future possibility there still is a growing
7 need to enhance our supply capacity.

8 That completes my presentation. I'd be
9 happy to take any questions.

10 ASSOCIATE MEMBER BOYD: Dan, I presume
11 the idea of more snow, more salt, more rust,
12 quicker turnover of the California fleet is out of
13 the question?

14 MR. FONG: We don't control that --

15 (Laughter.)

16 ASSOCIATE MEMBER BOYD: Particularly
17 with the climate change estimates I've seen of
18 less snow in California in the future.

19 Just a comment, not a question. We, for
20 the past year, of course, have been really
21 interested in Fischer Tropsch, and have talked it
22 up quite a bit. But, I kind of thought we were
23 somewhat of a minority of folks, but I think I
24 passed on to our staff already, about a month ago
25 I attended a conference on alternative fuels.

1 And it was almost a testimonial to
2 Fischer Tropsch. And I was amazed to see the
3 interest expressed by large numbers of
4 organizations, and particularly the U.S.
5 Government, particularly the U.S. military in this
6 type of fuel, which, of course, you can make it
7 from natural gas, you can make it from coal, you
8 can make it from a variety of other let's say
9 commodities.

10 And I was very pleased to see the huge
11 interest in this subject. So, maybe there will be
12 an acceleration a little earlier on the curve as a
13 result of so much attention being paid to that
14 subject. So there is hope in some arenas, anyway.

15 MR. FONG: We would agree.

16 MR. BUELL: I believe we have Gordon
17 back.

18 MR. SCHREMP: Thank you, Rick. I think
19 all the presentations up to this point in time
20 have at least given everybody, I think, a pretty
21 full background for what I'm going to be talking
22 about now, and that's the infrastructure, what we
23 call the petroleum infrastructure.

24 So, certainly I'm sure you all learned
25 everything completely -- I think we're taking a

1 test at lunch, I'm not sure, but -- here are the
2 infrastructure topics I'll be covering in the
3 final presentation by staff. We'll talk about
4 what we mean by petroleum infrastructure. And
5 we'll also talk about looking at those imports and
6 exports on a historical perspective, what has come
7 into California recently, and what has left going
8 to neighboring states.

9 Look ahead at what the expectation is;
10 share additional imports, of course. But there
11 are some new projects, either under construction
12 or soon to be under construction that I'll talk
13 about, touch on briefly. And what our need and
14 timing is, as well as what I call the changing
15 trend.

16 Four main parts to the infrastructure,
17 at least how we've decided to break that out. And
18 those are what we call the marine facilities, the
19 refineries, storage tanks and the pipelines.

20 Crude oil and petroleum product
21 infrastructure assets are different. They are
22 distinct from one another, and they're not
23 interchangeable, meaning the crude vessel doesn't
24 pull into the product terminal and unload. The
25 storage tanks berth requirements, plumbing, the

1 piping, everything is different.

2 And another electricity analogy. We are
3 not linked to the outside to quickly receive
4 additional imports via pipeline. And northern
5 California is not directly connected to southern
6 California by pipelines, as you may remember from
7 Daryl's graphic on the state. And that means
8 truck movements, if you have to do anything that
9 way, or barge movements between northern and
10 southern California.

11 The first part of the infrastructure is
12 what we call the marine facilities. And they're
13 inland a bit, meaning in sheltered coves, to
14 protect from heavy sea activity. They have to be
15 dredged properly to allow the vessels to get
16 access. They have adjacent storage tanks, as you
17 can see from pier 118 here, and that is allowing
18 the vessel to be offloaded as quickly as possible
19 into those adjacent storage tanks. And then the
20 product is moved on later into a network of
21 pipelines to go on to its ultimate destinations.
22 Refineries if they're blendstocks, or terminals if
23 they're finished products.

24 Most of the refineries in California do
25 have a proprietary dock which means most of the

1 refineries have access to the water, of course,
2 except for the two refineries in Bakersfield when
3 we exclude the Kern River.

4 Third-party storage does provide access
5 to majors and independents. And that's rather
6 important. Especially Kinder-Morgan. There was a
7 question, Commissioner Boyd talked about Kinder-
8 Morgan being an important part of the pipeline
9 infrastructure. We believe that at least 60
10 percent of petroleum products do go through the
11 Kinder-Morgan system at some point in time, so
12 they are rather important.

13 ST Services, they have facilities in
14 northern California, Stockton, and an important
15 third-party provider. Chemoil in southern
16 California, Petro Diamond in southern California,
17 as well.

18 Other part about the marine facilities,
19 and I touched on this earlier. And that has to do
20 with dredging. Now, dredging is actually vital.
21 And there's two types of dredging. There's what
22 we call maintenance dredging, and that's of those
23 berths where the ships pull in. They silt up;
24 they have to be dredged rather consistently. Some
25 are worse than others.

1 And you also have dredging in the main
2 ship channels. And the Pinole Shoals in the north
3 Bay is one of those pinch-points, if you will, in
4 the water.

5 Now, what's important to remember is
6 that if the dredging is deeper, larger vessels can
7 come in, that certainly decreases the amount of
8 smaller vessels making the transit back and forth
9 which can diminish obviously emissions and the
10 possibility of accident.

11 And the lower right-hand side of this
12 graphic you'll see a three-dimensional
13 representation of Alcatraz and where the spoils of
14 a lot of the dredging in the Bay have been
15 deposited.

16 Refineries, the second component. They
17 obviously are the primary hub. Products coming
18 in, crude oil coming in, feedstocks, refined
19 products going out. They do receive crude by
20 pipelines, and that has to do with southern San
21 Joaquin Valley. They go to the Bakersfield
22 refineries and up north to some northern
23 California refineries. As well as down and
24 through southern California, as well.

25 But the lion's share will be in by

1 marine vessel to the refineries. And they do
2 operate at maximum capacity, not to beat a dead
3 horse here, but they do, except during those
4 periods of plant maintenance or outages.

5 Something else I think it's important to
6 note, that the refineries have multiple types of
7 storage tanks. The output from the various units
8 goes into other holding tanks that are then used
9 to blend into a third set of tanks for the final
10 product.

11 The majority of gasoline, as I
12 mentioned, does go from the refineries into
13 pipelines. It's a very efficient and safe means
14 of transportation and to over 60 terminals located
15 throughout California. And then at that point the
16 tanker trucks take the product to the service
17 stations or municipality, whatever.

18 Most refineries do have the ability to
19 load some of their output into tanker trucks at
20 their refineries. But it's a smaller portion of
21 the total distribution.

22 Storage tanks. You have to have them to
23 receive products. You have to have them at the
24 refineries as I just mentioned. And you have to
25 have them along the pipelines to store the

1 products to load the tanks. They're absolutely
2 necessary.

3 Different purposes, of course. As you
4 can see from that laundry list it's basically
5 everything coming in, everything going out to load
6 the truck, and everything between. And I think
7 one of the main points in there, holding
8 inventories in advance of planned maintenance.
9 That's something the refineries do, and third-
10 party storage providers, on speculation. So
11 that's an important function, as well.

12 Storage tanks, --

13 ASSOCIATE MEMBER BOYD: Gordon, excuse
14 me.

15 MR. SCHREMP: Yes.

16 ASSOCIATE MEMBER BOYD: Your last bullet
17 on this chart talks about strategic storage. Do
18 you have any idea of how much quote "strategic
19 storage" there really is, as used in the way
20 you've described it here?

21 MR. SCHREMP: Strategic storage, by the
22 definition, the purpose of this bullet in the
23 slide, is those market interests that will bring
24 product in on speculation that there will be a
25 need for it at some point.

1 We have seen, I think, this spring a
2 total in excess of one million barrels of gasoline
3 has been sold into some of the recent price
4 spikes. So, if, in fact, that had not been held,
5 the price spikes would have been more significant
6 than they were, because that product would have
7 had to have come in from outside.

8 The refiners in advance of the unplanned
9 turnarounds can store collectively probably in
10 excess of two million barrels additional storage
11 in advance of that work in case the work extends
12 longer than anticipated. And we have seen that
13 this spring, as well as the previous spring.

14 ASSOCIATE MEMBER BOYD: I appreciate the
15 answer, in particular I was struck by the
16 strategic storage as a hedge against rapid price
17 increases. I'm quite aware of the storage that's
18 held to offset planned and scheduled maintenance.
19 But, anyway, you've answered the question more or
20 less. I just note that one strategy.

21 MR. SCHREMP: Okay. The storage tanks
22 are not all of the same type. We have what we
23 call dedicated tanks. They're just one type of
24 product. And that could change over the years.
25 You could have something that's storing what we

1 call black oils, dirty products. They use those
2 feedstocks for refineries or fuel oil for
3 bunkering vessels. And maybe those tanks are
4 cleaned, retrofitted and used to store gasoline
5 components. But they're dedicated and they remain
6 in that service.

7 Other types of tanks, more modern tanks,
8 if you will, we call them drain dry. That means
9 that the tank can be almost completely emptied and
10 then another clean component can be put in its
11 place. That increases the flexibility. For
12 example, drain down the gasoline and then load it
13 back up with jet fuel.

14 Renovation of existing construction of
15 new storage tanks will be necessary to handle the
16 influx of imports. So it's not just the marine
17 facilities, it's going to be the storage tanks, as
18 well.

19 And most, if not all, will be at
20 existing brownfield locations with storage tanks
21 now. We don't really anticipate any large
22 greenfield location for a new tank farm.

23 Pipelines, the final element of the
24 infrastructure. Used throughout California. As
25 you saw from Daryl's graphic of the state,

1 intrastate and interstate pipelines, important
2 provider to the neighboring states.

3 I think Commissioner Boyd had a question
4 about, you know, are we sending fuel to Oregon.
5 Yes, we are. It's about 30 percent of their
6 supply. Gasoline's about 30,000 barrels a day
7 that are going up there, normally up through
8 Portland.

9 Pipelines are not just the pipe, itself,
10 in the ground. There are other important elements
11 associated with the pipeline. You have to pump
12 the product through the line. Sometimes you have
13 booster stations and you have all the associated
14 tankage at all the various terminals along those
15 pipelines.

16 But I think with regard to permitting,
17 one of the more challenging permits to get is a
18 pipeline because, in fact, they cross multiple
19 jurisdictions. And so you have to deal with
20 getting the permits and conditional use permits
21 from all those jurisdictions, so it can be more
22 difficult.

23 Let's look at some of the historical
24 numbers, just to get some perspective of what's
25 happened in California. We did shift from a net

1 exporter to a net importer. And what that means
2 is we now import more than we send out. And this
3 is only on the water, meaning marine movements.

4 For this calculation we are excluding
5 the pipeline exports that have been going on and
6 do continue to go on to Reno, Las Vegas, Phoenix
7 and Tucson from California.

8 They're increasing, imports are,
9 generally. And I say that because in the last
10 year of the data there was a decline. I'll talk
11 about that. And as you see from the numbers
12 they've been rather significant, except for that
13 decline. And 107 million barrels in 2002, and
14 then the barrels per day, it's almost 300,000.

15 And marine exports have declined 45
16 percent over that time, which makes sense, as you
17 become more of a net importer. And that's a
18 smaller component, as you can see, a third of
19 that, 30 million barrels.

20 And here's the slide where we take total
21 imports and subtract the exports from it, and the
22 resulting graphic is this. The light blue
23 feedstocks and components, those are feedstocks to
24 the refinery units I spoke of, as well as blending
25 components, primarily that for gasoline,

1 alkylates, oxygenates, MTBE, things of that
2 nature, including ethanol. But there's very
3 little ethanol in 2002.

4 Finished products are for residual fuel
5 oils, diesel fuels, jet fuel, gasoline, so the
6 whole suite of petroleum products. And, as you
7 can tell, a peak there in 2001 in this data set,
8 and declined in 2002. And that's -- these changes
9 do have a lot to do with how well the refineries
10 in California are operating. And that means if,
11 in fact, there's some significant down time,
12 obviously additional imports would have to be
13 brought in for that period of time. So no
14 coincidence 1999 and 2001 are a bit higher for
15 imports because refinery reliability was not as
16 great in those two periods compared to 2000 and
17 2002.

18 I already touched on this. We're using
19 similar facilities. But what we'd like to look at
20 is not just net imports into California, we like
21 to look at what's impacting the entire system.
22 That means coming and going have to use the same
23 dock. And to a greater extent, some of the
24 existing piping and tankage. So that's what we
25 look at for the total load on the system, if you

1 will.

2 And so in most cases obviously only one
3 ship at a time at a berth unless the berth can
4 accommodate two because it's long enough.

5 Domestic movements, we're at 40 million
6 barrels in 2002, while foreign movements were more
7 than double that, almost 100 million barrels. And
8 you also have to look at not just what's coming
9 from outside and then leaving by marine vessel,
10 California refiners also move products between
11 northern and southern California kind of on
12 balance. Northern California is long or has
13 excess supply that is moved down to southern
14 California for meeting demand in that part of the
15 state.

16 And so there's barges loaded in northern
17 California; they move down to southern California.
18 And so that can also contribute to congestion of
19 the docks because the barge obviously has to be
20 berthed and loaded with some of the same
21 equipment.

22 Taking those three components, putting
23 them together in a graphic you'll see a similar
24 pattern from the net, and that is going up in '99
25 and a little bit higher in 2001 and declining in

1 2002.

2 Now, I'll talk a little bit about crude
3 oil. Crude oil is a vital component to the
4 refineries; obviously without it you're not going
5 to be making any fuel. So, we have concerns about
6 the adequate supply or capacity of infrastructure
7 to receive them because, in fact, the demand for
8 crude oil imports is increasing at a greater rate
9 than that of gasoline and other components.

10 Total imports have only increased 15
11 percent. You say, well, you just said it was a
12 greater percent. Well, it's the last period that
13 we're looking at here, the last few years. Almost
14 7 percent per year increase in imports. And there
15 is reason for that. Daryl talked about this. You
16 saw from his graphics crude oil production in
17 California is declining, and that will be made up
18 by additional imports across the water. And it
19 can be primarily foreign, but it can also be from
20 Alaska.

21 As we saw in 2003, the amount of crude
22 oil from Alaska actually went up compared to 2002.
23 So that has something to do with they're arrested
24 some of the declines in the field in Alaska, just
25 a little bit. But there can also be some crude

1 shifting the sourcing, whether which refinery it's
2 going to in the Pacific Northwest, California. So
3 there's reasons that can change.

4 But for purposes of the marine
5 infrastructure it does not matter appreciably if
6 it's from Alaska or from foreign destination
7 unless, of course, the foreign vessels are much
8 larger in size. Then it does matter.

9 ASSOCIATE MEMBER BOYD: Gordon.

10 MR. SCHREMP: Yes.

11 COMMISSIONER GEESMAN: I note that
12 you've got 2003 data for crude, but you cut off
13 your product evaluation in 2002. When do you
14 expect 2003 data to be available for product
15 flows?

16 MR. SCHREMP: According to the source
17 the data, which is the Army Corps of Engineers,
18 near the end of this year, the 2003 data will be
19 available.

20 ASSOCIATE MEMBER BOYD: Thank you.

21 MR. SCHREMP: You're welcome. Largest
22 increase has been for the foreign crude imports.
23 As you can see from this graphic foreign imports
24 of crude oil on the bottom. They're going up at a
25 pretty steady clip. And the domestic, which on

1 the water would be the Alaskan crude oil, or
2 Alaska crude oil. And that is declining except
3 for that last period in 2003 where it did bump up
4 just a little bit.

5 Now, I talked a little bit already about
6 some of the variability in these import numbers in
7 the recent years. And, of course, one of the
8 dominant factors is refinery reliability. And
9 another is the health of the economy. Certainly
10 that has an impact on jet fuel demand. And then
11 jet fuel imports.

12 Jet fuel is imported in California on
13 balance to meet the demand. And we've seen some
14 significant declines in the last couple years, 12
15 million barrels. So it's been rather striking,
16 from 30 down to 18 million barrels, to give you
17 the actual numbers. So that's a rather
18 significant decline in the import jet fuel.

19 But as we expect as the economy picks up
20 and especially in the airline industry and there
21 are some other global factors that affected air
22 travel, that those demand numbers should pick up
23 at a higher pace than gasoline and diesel fuel.

24 And then, when I say improved efficiency
25 through exchange agreements, that means a refinery

1 has excess gasoline in one area, is helping to
2 supply another refiner who may not have a refinery
3 in that location. But that refinery is supplying
4 gasoline for the refinery in another location.

5 So rather than having the barges
6 crossing in the night, if you will, supply me in
7 northern California and I'll supply you in
8 southern California. That's more efficient, and
9 that takes some of the load off of the
10 infrastructure. So that's already gone on; we
11 don't know how much more efficient that can be,
12 but I just want to make you aware of that kind of
13 practice. It's been mentioned in the press
14 sometimes.

15 And we've seen some modest refinery
16 projects, so to the extent that the projects in
17 the refinery sectors moving forward are greater
18 than we have forecast in our supply trend, then
19 the need for additional imports will be less.

20 We have looked at the infrastructure
21 before. This is not the first time. We are now,
22 as part of our Integrated Energy Policy Report,
23 taking a more focused look rather than a more
24 macro look at some of these key bottlenecks and
25 concerns that we've been made aware of in our

1 previous work, as well as other interactions with
2 industry and other stakeholders.

3 And southern California infrastructure
4 is expected to receive the bulk of these imports.
5 That would be both crude oil and petroleum
6 products. And adequate access to marine import
7 facilities is an important factor, because if you
8 can't unload your ship or you have to divert your
9 ship, that could be significant a lag time to
10 unload the components. And that can be a concern,
11 especially during some tight supply situations.
12 So we have seen some congestion at the docks that
13 have occurred, and we're seeing that right now.
14 So having access to that marine import is very
15 important.

16 Now I talked about new projects; I have
17 just four slides on those just to give you a
18 flavor of what's been going on. These are some of
19 the high points. I apologize to anybody if I left
20 a project off that we're not aware of at this
21 time.

22 But, we believe additional projects
23 within the infrastructure will be necessary to
24 meet that growing need that you saw in that
25 graphic of the widening gap between demand and

1 instate production. And the pace and scope of
2 these projects is the key concern.

3 As I mentioned before, doing a pipeline
4 project, as an example, does and can take longer
5 for permitting than say a tank farm. But we've
6 seen where a tank farm can take almost as long as
7 a pipeline, so. But, so the pace and the scope is
8 important.

9 New projects. Marine facilities. This
10 is Pier 400 in the Port of Los Angeles. And I'll
11 try to use this device again. And this area at
12 the tip here has been reserved for petroleum
13 infrastructure. And there is -- Pacific Energy
14 Partners are looking at development of that area.
15 And I think we have a presenter here that -- or
16 one of the panel members can talk in more detail.
17 I won't cover it more than that.

18 Long Beach is also a point that's being
19 examined for an additional crude import facility.
20 But either development will require additional
21 tankage, and the pipeline infrastructure that
22 doesn't currently exist. And so the permitting
23 can take quite a long period of time that's
24 anticipated for either of these projects.

25 Refineries. This is Paramount

1 Petroleum. As was mentioned previously here, the
2 numbers we anticipate by the end of this year or
3 January of 2005, we think that's an important
4 augmentation of supply, especially in light of the
5 possible closure of the Shell Refinery by October
6 1 of this year. And they just recently approved
7 their permit. I believe it took between 16 and 18
8 months from their application to receive their
9 permit.

10 PRESIDING MEMBER GEESMAN: What permit
11 are you referring to?

12 MR. SCHREMP: Permit to construct and I
13 think we have a representative from Paramount
14 Petroleum who would be happy to answer questions
15 during the panel session.

16 PRESIDING MEMBER GEESMAN: Thank you.

17 MR. SCHREMP: This is the Kinder-Morgan
18 Carson project. They're attempting to expand
19 their tank farm in southern California. This is a
20 very important third-party storage provider. That
21 means for refineries us this; some of the
22 speculators that will bring product in that are
23 very important during our periods of supply
24 disruption, and other refiners bringing material
25 in for planned maintenance.

1 They're trying to increase capacity with
2 19 additional storage tanks over 15 years. And
3 there are various phases-in of this project. It's
4 about 1.5 million additional barrels of storage
5 capacity.

6 Their conditional use permit was
7 approved but then subsequently appealed. And
8 right now, at the request of Kinder-Morgan for
9 more time, and there's going to be a recirculation
10 of the environmental impact report. And all the
11 additional work, the preparation, recirculation
12 and meetings could take an additional nine to 12
13 months.

14 PRESIDING MEMBER GEESMAN: When you say
15 appeal, do you mean challenged in court?

16 MR. SCHREMP: It was, as most entities
17 issuing permits, conditional use permits for
18 example, a decision is made publicly. There is an
19 opportunity within probably ten days for anyone to
20 appeal that decision. And that is what occurred
21 down in the City of Carson.

22 PRESIDING MEMBER GEESMAN: But appeal to
23 who?

24 MR. SCHREMP: It's appealed, and on some
25 basis that the information was inadequate supplied

1 by the applicant; or there was some error made by
2 conclusions made by the panel that's appealing,
3 whether it's a planning commission, you know,
4 city, board of commissioners, what-have-you.

5 PRESIDING MEMBER GEESMAN: Okay, well, I
6 recognize that we have both Kinder-Morgan and the
7 City on our panel later, so I'll ask those
8 questions then.

9 MR. SCHREMP: Okay. Pipelines, as well.
10 This is the Kinder-Morgan project, what we call
11 their north line. And that runs between Concord
12 and the Bay Area up to West Sacramento. So this
13 is just one segment of all their pipelines, but
14 it's really good news that this pipeline is
15 underway finally.

16 As you can see from the initial point of
17 an application package being submitted, it was
18 three years to get to the point to begin
19 construction. The main line construction, as you
20 can see from these photographs, is just recent,
21 it's the first week of June, and in fact these
22 pipes have already been welded, and the pipe
23 placed in the ground in this section. So the work
24 is progressing rapidly and Kinder-Morgan can talk
25 to that, too.

1 Should be operational by the end of this
2 year, so that's good news. Because we're looking
3 at about a 30 percent increase in capacity. And
4 we have a broad range of growth over the next 10
5 to 20 years. Why isn't it a more narrow range?
6 Because it depends on the amount of demand and how
7 the market wants to efficiently distribute
8 products. That can either make that a longer or
9 shorter period of time.

10 These projects are encouraging, but
11 additional capacity will definitely be needed. As
12 I mentioned, that pipeline is just one segment and
13 there are other portions of the Kinder-Morgan
14 system that are currently constrained. There are
15 some marine docks that are currently constrained
16 that don't have a project, and don't have a
17 project underway. And so if they're already
18 constrained now, you know, how will they be next
19 year or the year after, et cetera.

20 So, these are some of the high points.
21 Demand is out-pacing these expansions of the
22 refineries. More imports.

23 And to put some of those numbers that
24 you saw on the earlier graphic, they are rather
25 large. A new refinery's worth of output every

1 four years is pretty significant. As well as the
2 additional 8 million barrels, you know, every
3 year, moving forward for imports of crude oil with
4 marine vessels. So those are some big numbers.

5 MR. SMITH: Gordon, those big numbers,
6 the imports for finished product, feedstocks and
7 blending components, as well as the \$8 million
8 barrels each year, I assume that's calculated just
9 simply to meet demand. That's what's needed to
10 meet demand over the coming years, correct?

11 MR. SCHREMP: Yeah, I'll talk a little
12 bit more in detail about that, the crude oil
13 number, Mike. Increase above and beyond today's
14 levels of imported crude oil, both from Alaska and
15 foreign sources.

16 MR. SMITH: Well, I guess my question is
17 can we actually import that amount? Do we have
18 the physical capability to import those amounts?

19 MR. SCHREMP: There is some spare
20 capacity, if you will, to import additional crude
21 oil. The concern is that that spare capacity may
22 be used up before these projects to increase crude
23 oil import infrastructure are completed. And I
24 think there's some people here that have been
25 looking at it in greater detail and can talk to

1 that on the panel.

2 But just to give you a sense of sort of
3 how one would look at, say, increasing crude oil
4 imports, we look at -- you talk about the demand,
5 we look at the demand at the refineries, of
6 course, and that would be the half a percent
7 increase in crude through-put the refineries.
8 That's part of this number.

9 But the lion's share has to do with
10 California's increasing decline in crude oil
11 production, which will be replaced by offshore,
12 either, you know, Alaskan or mostly foreign
13 sources on the water. And that's declining at a
14 rate of 2.3 percent per year.

15 So, all of that can add up to these
16 kinds of numbers.

17 Now, I think Dean spoke in his
18 presentation about how there are some regulations
19 on the books, refinery projects underway to comply
20 with ultra low sulfur diesel, June 1, 2006. And
21 those projects are mostly modest because the
22 refineries have already desulfurized rather
23 significantly.

24 Beyond that, there is an examination of
25 some options for what's characterized as phase

1 four. Don't know what those may look like, but
2 it's likely because the gasoline is so clean, very
3 low sulfur, low toxics, et cetera, that there may
4 not be some very large projects ahead. At least
5 there aren't any on the books.

6 So that's why we're talking about what
7 we see as a changing trend, if you will. A shift
8 away from the focus on the refineries which have
9 had lots of projects, mostly associated with new
10 fuel specifications. And the staffs that do the
11 reviews of those EIRs were built up with both
12 enough personnel, as well as expertise.

13 But we're now looking at significant
14 changes that we foresee projects in other areas,
15 not those areas. And so this can be problematic
16 in terms of where the projects are, crossing
17 multiple jurisdictions. If you get more and more
18 of those pipeline projects, that's going to
19 involve an awful lot of additional jurisdictions
20 and expertise. So it's just a concern at this
21 point. We'll certainly be looking at this issue
22 in greater detail as part of the 2005 IEPR.

23 And I guess I'll leave you with just, we
24 call it a new paradigm; that's what we're looking
25 at, is this shift away in the focus.

1 So if you have any other questions, I'd
2 be happy to answer them at this time.

3 PRESIDING MEMBER GEESMAN: Rick, what's
4 next?

5 MR. BUELL: The next thing we'd like to
6 do is have the panel members from the industrial
7 panel take a seat at the front table here. I have
8 name tags for those people who have been invited
9 to be on the panel, so let me know who you are and
10 I'll give you your name tag.

11 (Pause.)

12 MR. BUELL: If I might suggest, if the
13 panel members would go around the table and
14 introduce themselves, and the agency or rather the
15 company that they represent and what they do
16 there.

17 DR. BISHOP: I'm K.C. Bishop with
18 ChevronTexaco Corporation.

19 MR. HACKETT: And I'm Dave Hackett with
20 Stillwater Associates.

21 MR. HAMBURG: Barry Hamburg representing
22 Chemoil.

23 MR. GRIMES: Gary Grimes, Paramount
24 Petroleum.

25 MR. SMITH: Dave Smith, bp West Coast.

1 MR. FERRER: Ed Ferrer, Kinder-Morgan,
2 Director of Engineering.

3 MR. UMENHOFER: Tom Umenhofer, I'm an
4 Environmental Advisor to WSPA.

5 MR. SPARANO: Joe Sparano, I'm with
6 WSPA.

7 MR. ENGLISH: Bill English, I'm with
8 Altos Market Modeling Consultants and formerly
9 Chevron.

10 MR. FERRARI: Dominic Ferrari, Pacific
11 Energy Partners.

12 MR. PETERSON: I'm Mike Peterson; I'm
13 with ST Services.

14 MR. BUELL: I don't know that we have
15 any particular order that we'd like to proceed at
16 this point. I'd like to invite who ever would
17 like to speak first to first address what staff's
18 presentation, whether they have any comments or
19 different views of the future.

20 PRESIDING MEMBER GEESMAN: Why don't we
21 just go around the table so that people --

22 MR. BUELL: Okay.

23 PRESIDING MEMBER GEESMAN: -- have a
24 sense as to --

25 MR. BUELL: That makes sense.

1 PRESIDING MEMBER GEESMAN: I don't mind
2 imposing on K.C. and saying you're first up.

3 (Laughter.)

4 ASSOCIATE MEMBER BOYD: Anonymous,
5 there; name-tag-less.

6 DR. BISHOP: I apologize. We weren't
7 sure who was going to be here; it's been a busy
8 time.

9 Thank you very much. Do you want us to
10 start with questions? I don't really have any
11 questions on the presentations. I'd just like to
12 make a comment. It's a point that I think our
13 industry's been making, and Mr. Torlakson's been
14 making in the California Legislature.

15 It's not just refineries, it's
16 pipelines, it's port facilities. And it's really
17 important, we need to move forward and do
18 something about it. And there's obviously
19 interest now from the San Diego delegation, too.
20 So, it's important, and I think it's starting to
21 be realized in California.

22 To begin, with that I'd really like to
23 focus on the last three questions. Basically in
24 permitting it really depends on where you are.
25 And for some reason the same permit can take

1 dramatically longer in different venues. And it's
2 not always clear exactly why that is, but there's
3 clearly things that can be done to change it and
4 make it faster.

5 The first example for us was our ethanol
6 tanks. One on the north coast, one in Sacramento
7 and one in our Richmond refinery. The one on the
8 north coast took a month; the one in Sacramento
9 took two months; and the one in Richmond took 11
10 months to get the air permit, and 14 months to get
11 the conditional use permit.

12 Those tanks were identical. And if
13 anything, the least obvious change to anything was
14 the tank in Richmond which was 15,000 barrels a
15 day, and it -- 15,000 barrels, excuse me, and it
16 was among, as you know from our Richmond refinery,
17 tanks that are dramatically larger than that.

18 The reason seems to be continual
19 challenges as we go through the CEQA process, from
20 the design review committee to the planning
21 commission and then up to the city council. every
22 step of the way there was a challenge. And the
23 maximum length of time was taken. That's why the
24 conditional use permit took 14 months.

25 Obviously figuring out how to address

1 that is a complex issue. And anything you could
2 do that would allow essentially one challenge on
3 exactly -- on really one issue, to only have one
4 challenge, that would definitely speed the process
5 up. But obviously when you talk about how you
6 streamline CEQA it becomes highly political.

7 One of the things that we found that
8 would really improve the process would be to have
9 those things that are substantially similar, what
10 we call substantially similar equipment, to not go
11 through the extremely detailed permitting that we
12 go through at the regional air boards.

13 You may know that the Bay Area Air
14 Quality Management District, for substantially
15 similar types of equipment in the electronic
16 industry, and our sort of poster-child is
17 degreasers, you can actually go in, as long as you
18 meet the criteria that they've already
19 established, so as long as you fall within that,
20 you can apply and get your permit online in 24
21 hours.

22 And there's no reason that same type of
23 permitting couldn't exist for tanks, for valves,
24 for heat exchangers, even for furnaces and a
25 myriad of the details that we end up having to

1 discuss with each permit writer when we go through
2 our permitting process in our refineries.

3 Since, as you pointed out, most of the
4 new facilities that are going to take place are
5 really going -- or new expansion that's going to
6 take place, unless they're in the port facilities,
7 but within the refinery, are really going to be
8 those incremental projects.

9 What we really need is, I think, a
10 couple of things. One, the kind of reform in the
11 permitting that I was talking about. And the
12 second would be to have somebody speak for the
13 public interest when you actually have those
14 hearings. At times your board has helped us and
15 it's been actually very helpful.

16 And frequently these hearings, if it's
17 6000-barrel-a-day increase, I mean it could be a
18 heat exchanger, it could be a furnace, any of
19 those things could make a huge difference. And
20 it's rare to have anybody show up and speak for
21 the actual need. And that's one of the parts of
22 Torlakson's bill, and the new AB-81, which is to
23 have someone, probably one of the Commissioners,
24 actually speak for the public interest.

25 So, I'd be happy to answer any

1 questions. Thank you.

2 PRESIDING MEMBER GEESMAN: David.

3 MR. HACKETT: I'm Dave Hackett with
4 Stillwater Associates. I think the reason I got
5 invited here is because we've done a lot of work
6 for the Energy Commission over the last few years,
7 three specific projects, strategic fuel reserve,
8 the impact of the MTBE phase-out, and the marine
9 infrastructure project.

10 And so I think early on, you know, we
11 said when you hired us to look into the issues
12 around high gasoline price in California we said
13 permitting was an issue. And so here we are
14 continuing to work on that project.

15 So I think a lot of what I'm going to
16 talk about today, I think, is reaction of staff,
17 presentations. When we wrote our reports a couple
18 years ago about the shortfall in supply versus
19 demand here in California, we made some, you know,
20 some -- had some thinking about how high prices
21 might get to. Well, I think what we've seen and
22 what staff showed was that, in fact, retail prices
23 are, you know, considerably higher today than they
24 were a couple years ago versus the rest of the
25 country.

1 And in wondering about -- and frankly,
2 higher than we thought they would be -- and
3 wondering about that, I think that what we've
4 concluded is that we've missed the demand
5 forecast. In fact, demand's been stronger than we
6 thought it would be. We wrote down 1.6 percent
7 when we did our study two years ago, and I think
8 we had a 2.1 was the high side. In fact, in a
9 year-to-date nationwide gasoline demand is up 2.4
10 in the face of very high prices.

11 So, there's an awful lot of -- the
12 overall economy is getting good. People are
13 feeling good about their personal economies and
14 they're driving more. So, you know, I almost
15 wonder if your demand forecast is too
16 conservative. I think that you all need to take a
17 look at that 1.5, and say, well, maybe it really
18 is closer to 2. And that makes a big difference
19 as far as demand is concerned.

20 And then on that price graph, I think
21 that that price graph compares California x tax
22 with the U.S. So the tax impact's been taken out
23 of it, you don't have to worry about those. But
24 10 percent or 11, 12 percent of that U.S.
25 component of -- of that U.S. price is a California

1 component. I think arguably once you take
2 California out of the U.S. so it's California
3 versus 49 states, that the price differences are
4 even more dramatic.

5 And then we've been doing a fair amount
6 of work lately for both the Energy Information
7 Administration and the American Petroleum
8 Institute, looking at supply issues, current
9 supply issues and forecast supply issues.

10 And one of the points that we've come up
11 with, one of the things we've run into is that the
12 MTBE de minimis levels create a barrier to supply
13 for imported fuels. And so I think it might be
14 very well that we've got a strict level that's
15 going to zero. But I don't know what that's
16 costing consumers.

17 So my opinion is that there's a consumer
18 cost associated with those very strict regulations
19 that some would argue may very well be
20 unnecessary.

21 And then finally, it's quite clear that
22 the rest of the nation is going to more stringent
23 fuel specifications. That's good. Everybody's
24 for clean air and clean water. But, what I
25 wouldn't do is get excited about how that's going

1 to help California, because I think that what
2 we're seeing so far this year, with transitions
3 away from MTBE in New York and Connecticut, and to
4 low sulfur gasoline nationwide, is that it
5 continues to create barriers to supply of fuel
6 into the country, as a whole. And it makes it
7 tougher for refiners outside of California to make
8 product.

9 So because the rules got tougher in the
10 rest of the country doesn't necessarily translate
11 into greater supply for California. I don't see
12 any evidence of that at this point.

13 PRESIDING MEMBER GEESMAN: Let me ask
14 you how you respond to the staff's view that I
15 think Gordon expressed at the very end of his
16 presentation, that from a permitting standpoint
17 the types of facilities we're likely to see in the
18 next several years represent a new paradigm, away
19 from the refiners, perhaps, into storage and
20 pipeline facilities involving new actors.

21 MR. HACKETT: Well, our analysis of the
22 refiners that we did for the strategic fuel
23 reserve showed that the refiners in California
24 have been very highly upgraded. And so they've
25 made -- they convert almost all the low material

1 streams, the low value streams that they have into
2 higher value products like gasoline, jet fuel and
3 diesel. There's not much more of that conversion
4 to high value products left.

5 And so in some cases there are, if you
6 want a step change in onshore production capacity,
7 it's another new refinery. What we see will
8 happen is refiners will continue to put money into
9 their plants in order to refine as much as they
10 can, but we don't see any step changes in refinery
11 production.

12 And therefore, the additional supply is
13 going to have to come in on tankers from someplace
14 else in the world.

15 PRESIDING MEMBER GEESMAN: Thank you.

16 ASSOCIATE MEMBER BOYD: Dave, good to
17 see you again. Couldn't have a hearing on fuel
18 without you, I don't think.

19 Let me ask you about the world market
20 and demand. You mentioned domestically maybe we
21 all undershot it. And I think you've been
22 present, you were present for practically every
23 hearing we ever had where some of us talked about
24 what's going on in the developing world and
25 expressing concern about China, India, et cetera.

1 Is anything different happening there?

2 Is their demand for fuel more dramatic than we
3 thought a year or two ago, or is that fairly
4 static with what we were seeing?

5 MR. HACKETT: Oh, no, I mean that's a
6 great question. Clearly the demand in China and
7 the demand in India are up strongly. And that
8 goes a long way to contributing to very high crude
9 oil prices. So that impacts everyone in the
10 world.

11 But fundamentally, I think, the issues
12 that we're trying to address here are not so much
13 worldwide demand, but how do you get cleaner
14 burning fuels into California in sufficient
15 supply.

16 And so when you looked at Daryl's graph
17 where it used to be the prices in California were
18 a dime over the rest of the country, and now they
19 are quite a lot more than that, 27 cents was that
20 point in time. I think everybody's quite happy to
21 pay for clean air, but the issue is should it be
22 the 27 cents.

23 And so, I think that the worldwide
24 demand thing really comes back to the base on the
25 crude oil prices. Then we have to figure out how

1 to solve the issues around paying more than we
2 should for supply in California.

3 ASSOCIATE MEMBER BOYD: Thanks.

4 PRESIDING MEMBER GEESMAN: Barry.

5 MR. HAMBURG: Good morning,
6 Commissioners. Thank you for the opportunity to
7 come today. As Gordon was wrapping up his report
8 he talked about the issue of having marine access,
9 pipelines, terminals and refineries as part of the
10 infrastructure.

11 I'm here representing Chemoil today.
12 And we've made efforts of progress in addressing
13 three of those issues. Just recently this year we
14 manufactured a new pipeline, from a marine
15 terminal that was solely a dirty oil marine
16 facility, to receive clean products. And built a
17 new pipeline that would bring clean products from
18 that up to our Carson terminal, which has a
19 million barrels of storage. And we've been
20 rapidly in the progress and process of turning
21 that dirty oil terminal, a million barrels, into
22 clean. Well over half of it is clean now.

23 So those three sides, and I'd have to
24 say kudos to the Port of Long Beach and the City
25 of L.A., which we dealt with primarily on our

1 marine and our pipeline project. The permitting
2 on that went rather smoothly for us. And I
3 wouldn't say that there was any obstacles in that.

4 Where we found our obstacles currently
5 is our next logical step is to tie in our facility
6 to Kinder-Morgan's line 109, which runs between
7 Carson and Watson, which at the Watson
8 distribution point that's where product is
9 selected to go to southern California, out to
10 Arizona, Nevada, and the Colton area.

11 The facilities are very close together.
12 By and large, geographically the Chemoil terminal
13 is almost across the street from the Kinder-Morgan
14 terminal. To date Kinder-Morgan has rejected
15 offers that we've made to tie into their line 109
16 terminal.

17 Now, we have different connections.
18 Some to the bp terminal, some to Kinder-Morgan's
19 tank farm. And we've been accessing the
20 marketplace through those routes. But the
21 efficiencies of distribution would certainly be
22 enhanced by having a direct connection into the
23 Kinder-Morgan system..

24 And I think it was referred a couple
25 times where Kinder-Morgan had a great deal of

1 control on the pipeline infrastructure,
2 distribution infrastructure in California. And
3 it's one of the areas that we've struggled with.
4 And our next step forward is to improve the
5 efficiencies of our project.

6 But we're happy with where we're at. I
7 mean we've made some good progress. We want to
8 continue to progress. We are in commercial
9 discussions that I hope are going to yield
10 productive fruit with Kinder-Morgan right now.

11 PRESIDING MEMBER GEESMAN: Is there any
12 state government agency that oversees that
13 process? Or is that purely a private commercial
14 dialogue between yourselves and Kinder-Morgan?

15 MR. HAMBURG: It's private between us at
16 this point. Other regulatory agencies have looked
17 at it and decided they don't have responsibility
18 or jurisdiction within that area. I think the
19 biggest one was probably with FERC as far as
20 regulating interconnections and whether that line
21 109 is intrastate or interstate, as I guess
22 somewhat in confusion. But even FERC, because of
23 a previous ruling earlier this year between
24 Colonial and Plantation pipeline, FERC ruled that
25 it was not in their jurisdiction to rule on

1 product pipeline interconnection agreements.

2 PRESIDING MEMBER GEESMAN: The
3 California Public Utilities Commission, have they
4 gotten involved?

5 MR. HAMBURG: It's not their
6 jurisdiction, sir.

7 PRESIDING MEMBER GEESMAN: Okay.

8 MR. HAMBURG: So it's one area, I think,
9 that needs to be addressed. It's how do we push
10 connections into the main distribution pipeline
11 forward, as something that the Commission should
12 consider.

13 PRESIDING MEMBER GEESMAN: Thank you.
14 Gary.

15 MR. GRIMES: Good morning. I'm from
16 Paramount Petroleum. Most of you probably aren't
17 familiar with Paramount Petroleum. We're not a
18 big name in the refining industry here in
19 California. But we're a small refiner that's been
20 around since the 1920s. So for a very long time.

21 In the mid '90s -- until the mid '90s we
22 made fuels for products for consumers. In the mid
23 '90s when gasoline formulations changed, we
24 elected not to spend the capital investments, as
25 many small refiners didn't, and most of them

1 aren't around today.

2 We went into the military fuels business
3 for commercial reasons. And back about 2000 we
4 got a sort of pricing signal that we decided we
5 wanted to get back in the commercial fuels
6 business, and so for about four years we've been
7 on projects to get started back in that. We have
8 80 percent or 90 percent of the equipment that's
9 been sitting there waiting to go, just a small
10 part that needed to be added, essentially benzene
11 saturation.

12 And so we started about 2000. We got
13 our permits in, request for permits during that
14 period; went through the EIR process. And it's
15 been a fairly long road.

16 I had heard that you might have some
17 interest in our particular process, and related to
18 that I wanted to say this last weekend I attended
19 a -- I do a little youth sports activities -- I
20 went to a seminar this weekend on positive
21 coaching. And it's something developed at
22 Stanford and it's kind of spreading all over to
23 California in terms of crazy soccer parents and
24 things like that, try to reduce some of that.

25 There was a good point that the coach

1 made to the coaches was that you should always try
2 to sandwich your criticism with five-to-one parts
3 praised and one part criticism.

4 So, frankly we have never given AQMD the
5 praise they need, the five parts to allow me to do
6 any kind of criticism today at all. So I will not
7 criticize AQMD. So any comments I have are not
8 directly focused or related to AQMD. They're just
9 sort of general to the process.

10 And in general the process seems to be
11 very sequential in nature. And it takes much
12 longer than it should normally take to do that
13 kind of thing. And how many regulators are graded
14 on how fast their permits come out. Or how many
15 regulators are paid or get bonuses for doing
16 critical path networking just to speed things up.
17 It's just not part of the process.

18 And so maybe one thought is to have an
19 independent party or agency who does have that as
20 a goal, maybe an ombudsman or somebody who helps
21 push projects through a little faster.

22 PRESIDING MEMBER GEESMAN: When you
23 speak of a sequential process, are you talking
24 about multiple permitting agencies?

1 MR. GRIMES: No.

2 PRESIDING MEMBER GEESMAN: Or sequential
3 within a single agency?

4 MR. GRIMES: Sequential within a single
5 agency. You start with the engineers and then go
6 to their managers; then find another hurdle and go
7 to their manager; and find another hurdle and go
8 to their manager; and find a -- continuing a
9 series of hurdles that have to be jumped.

10 Just for perspective, years ago when I
11 got out of college I had the great fortune to work
12 on the Manhattan Project site up in Hanford,
13 Washington, which I'm sure many of you know, I
14 think it's probably the most impressive
15 engineering project ever done by this country.

16 In the course of 18 months the science
17 was done, the engineering was done, the
18 construction was put up, entire cities were built
19 and huge manufacturing projects that obviously
20 most people can't see because they're off limits.
21 Just an incredible project in the course of 18
22 months.

23 In the course of 18 months we got a slip
24 of paper. So, the point is that given the right
25 focus and perspective many things can be done,

1 just given the opportunity to do it. And many
2 challenges can be met.

3 Lastly, a couple other comments. Dave
4 had a point about how gasoline demand seems to be
5 climbing faster than what many people have
6 forecast, and maybe partly it might be in relation
7 to 9/11. People feel, and again this is the jet
8 fuel thing, as well, people feel less comfortable
9 flying overseas for vacations. A lot of people
10 are probably taking their cars to travel. And I
11 think that probably wasn't considered in a lot of
12 earlier forecasts.

13 Also, years ago in an earlier life, I
14 was a consultant for Pace Consultants of Houston
15 for ten years. And one of the things Pace was
16 known for in the late '70s, early '80s, was
17 modeling energy demands worldwide. And I know,
18 since I worked on it, there clearly is two
19 elasticities of demand related to hydrocarbons.

20 And one is the short-term elasticity,
21 which is the price at the pump; gets people
22 carpooling. They do something, what they can, but
23 it's not a lot because of the inconvenience of
24 carpooling.

25 And longer term people will actually buy

1 a different car. If the price gets high enough
2 they'll buy a different car. An indication of
3 that is I was babysitting my son's house
4 yesterday, actually. His wife's had a baby and I
5 was look at a Motor Trend magazine, I was looking
6 through it. And Motor Trend has now got a number
7 of Prius, Toyota Priuses, that they're examining.
8 Not hotrods. They're looking at Toyotas.

9 And so I think the people's thinking is
10 starting to shift a little bit to efficiency. So
11 that'll come in in some nature if the price signal
12 stays where it is. People will get the idea and
13 they'll get the signal.

14 And that's all I've got to say.

15 PRESIDING MEMBER GEESMAN: Thank you.

16 Dave.

17 MR. SMITH: Thank you. Dave Smith from
18 bp West Coast Operations. I first want to thank
19 the staff for a good presentation.

20 One thing, kind of building on Gary's
21 comments, I think bp, specifically, or maybe our
22 industry in general could use some more praise for
23 all the good things we've done over the last
24 several years to provide cleaner fuels and meet
25 demand and do all the things that we've been

1 doing.

2 PRESIDING MEMBER GEESMAN: Don't hold
3 your breath.

4 MR. SMITH: Yeah.

5 (Laughter.)

6 MR. SMITH: I was a soccer coach, so I
7 don't -- anyway. I would like to just support the
8 comments that have been made on permitting. We
9 certainly appreciate the efforts that have been
10 going on recently about looking for permitting
11 flexibility and various ideas. So I'm not going
12 to dwell on those, but we certainly support those
13 efforts.

14 I just want to comment on a couple of
15 things with regard to the staff's presentation.
16 One of them came about at the very end of Gordon's
17 presentation where he thought about talking about
18 the paradigm shift.

19 As some of you know I'm kind of an
20 external affairs person, and so occasionally I go
21 back to the refinery and terminals and find out
22 what they're actually doing, as compared to what
23 I'm doing out in the field. And I do see a
24 paradigm shift going on in the refinery, at the
25 terminals, at the docks. There's a lot of effort

1 looking at infrastructure, ways to get additional
2 product, additional crude into our facilities.

3 Gordon didn't mention it, but we have --
4 bp has been doing some things like putting in
5 shoreside pumps at our docks so that we can
6 offload vessels quicker. Starting next month
7 we're bringing California gasoline from our
8 Pacific Northwest refiner down into the Bay Area.

9 We're looking at several other projects
10 which, in many cases, are confidential proprietary
11 and I can't share them here. But I can tell you
12 that there's a lot of effort going on looking at
13 many of the issues that you're concerned about.

14 So, I think one message to you is I
15 think, at least for one company, I think we're
16 doing what we need to be doing to help meet future
17 demand. I think we've done that in the past, and
18 I think we're going to continue to do that into
19 the future.

20 It may look differently. We may not
21 refine more crude. We may or may not. We may
22 bring in more imports, blending components. And
23 we're getting ready to do that.

24 So I guess the last comment I would make
25 is the way the staff presented -- many times the

1 presented demand and supply graph that you saw. I
2 thought Gordon did a pretty good job in trying to
3 explain what happened to that, because it seems
4 like if you look at that around 2002 something
5 dramatically happened differently where up till
6 then we were somehow or other meeting demand, and
7 then after that it looks like we're falling short.
8 Where, in fact, I don't think that's the case.

9 So I think that maybe the presentation
10 was slanted a bit in the sense of maybe things
11 aren't so rosy for looking in the future. I'm
12 here to say that we're looking to the future
13 optimistically. There's certainly challenges,
14 whether it's permitting or what-have-you. We
15 think we can deal with those.

16 And to the extent that we need your help
17 more than you already give us help, we're not shy
18 about asking. Your agency, especially the Energy
19 Commission, has been very helpful in cases of
20 upsets and unexpected problems.

21 This last few months when the northern
22 California pipeline broke, when the Arizona
23 pipeline broke or had problems, your agency was
24 very helpful in evaluating what was going on,
25 helping us and communicating clearly to the

1 Administration about what was going on. I think
2 that's a critical role that you play, and I
3 encourage that you continue that role.

4 Thank you.

5 PRESIDING MEMBER GEESMAN: Let me
6 express some apprehensions about how things look
7 going forward. And I can't say that these reflect
8 anything more than just my own reactions to both
9 the staff presentation and some of the earlier
10 studies that we've done.

11 For one thing I don't think that state
12 agencies are particularly well equipped to
13 properly reflect supply and demand balances for
14 very natural reasons. We have a tendency to focus
15 on statewide numbers. We did hear some reference
16 to the fact that we really do have two regional
17 centers in California that aren't perfectly
18 interconnected, or aren't interchangeable.

19 There was some acknowledgement that the
20 States of Nevada and Arizona, to a lesser extent
21 Oregon and Washington, are dependent upon our
22 system. I will tell you there is very little
23 political support that I feel, anyway, for
24 servicing the needs of Arizona, Nevada, Washington
25 or Oregon. And yet I think our experience in

1 electricity showed us that it's pretty short-
2 sighted to look at California as an island.

3 And I suspect that were our demand
4 projections to reflect what's going on in those
5 other states, particularly Arizona and Nevada, you
6 might have much different numbers than the
7 projection for growth that we show in our state,
8 alone.

9 I guess I have another problem and I
10 think K.C. alludes to it in terms of who's
11 representing the public interest. When we have a
12 permitting process that is so dominated by local
13 decisionmakers doing the best job they possibly
14 can, but not reflecting anything beyond the
15 judgments of their own citizenry, and I have no
16 problem with that local focus on the part of those
17 decisionmakers, but I think the 95 percent plus of
18 Californians don't live within those
19 jurisdictions.

20 So that when he mentions who's speaking
21 for the public interest, it translates to me as to
22 who's speaking for either a statewide perspective,
23 or a perspective that attempts to take into
24 account California, Arizona, Nevada, Washington
25 and Oregon.

1 I also have some extreme concerns with
2 the logic of sequential processes. In the
3 electricity area, and I don't think it's a perfect
4 model to the problems besetting your industry, but
5 I think it is a relevant model, we try to force
6 all the different permitting entities into a
7 common forum. And to the best of our legal
8 ability, impose a common time requirement on their
9 decisionmaking processes.

10 None of you have alluded thus far to
11 judicial review, but one of the failings that I
12 see in the sequential permits is every sequential
13 permit is subject to judicial review. In the
14 electricity area we consolidate those all into a
15 single permit, and make it subject to an expedited
16 judicial review by the Supreme Court.

17 My primary concern, though, and I guess
18 I should say that my perception is that we have a
19 more environmentally oriented Energy Commission
20 than we've probably had at almost any other time
21 in our 30-year history. And I certainly count
22 myself among the most vehement of those
23 environmentalists.

24 But I am apprehensive about the ability
25 of the State of California to maintain its own

1 fuel standards if, in fact, we continue to pay
2 that large delta above nationwide average prices.
3 And I will tell you, every time that price spikes
4 up above a certain delta above the nationwide
5 average, we get a lot of apprehensive elected
6 officials wanting to know what can be done to
7 bring the delta down.

8 It seldom translates into improving our
9 permitting process, but it would seem to me that's
10 one of the fundamental blocking-and-tackling, if
11 you will, skills that state government is supposed
12 to bring to bear on that.

13 And I'm sorry for the sermon. Didn't
14 mean to go on as long as I did.

15 MR. SMITH: Well, let me try to make
16 mine a short reply. I think the very last thing
17 you said about whenever price spikes and there's a
18 call for relaxation of standards, that's one of
19 the examples that the Energy Commission plays an
20 important role in, in helping to educate or talk
21 to the Administration or whoever about what was
22 happening and how the industry is responding. So,
23 again, that's a key role that you're playing.

24 I think there is a good point about
25 looking at statewide and regional supply/demand

1 issues between, you know, the path five, as
2 referred to. We've certainly seen many examples
3 where that, you know, a pipeline rupture or break
4 in Arizona will have significant impact all up and
5 down the west coast.

6 So I think there does need to be a
7 concerted effort by your agencies and others to
8 look at that not only from a statewide, but
9 regional.

10 I just happened to learn here recently
11 that there's been a recent court decision, for
12 example, in the Northwest concerning use of
13 increased capacity in the Northwest to provide
14 gasoline or other products outside of Washington.
15 That may actually impact California quite
16 significantly depending on how that all works out.

17 So, that would be an example of
18 something where the Energy Commission may want to
19 look at that, that particular court case and that
20 decision and how it could ultimately lead to
21 problems here.

22 Because right now the Northwest is long
23 in, generally considered long in product, exports
24 it. And some of that material has been, and more
25 of it could be, coming to California to help meet

1 our demand. That may be in jeopardy with this
2 court decision.

3 With the permitting, and I'm not a
4 permitting expert, but I do know that in some
5 cases in the State of Washington I know where
6 there have been attempts to do like a one-shop or
7 consolidate permitting applications for
8 refineries, the industry, for good or for bad, has
9 tried to avoid that. And even to the extreme to
10 where the projects are just under the caps for the
11 limits for that.

12 So, whatever -- up there, at least, they
13 don't see it as a positive. Whether it would be a
14 positive down here is something else. But maybe
15 there's some lessons that we could be learning
16 from Washington.

17 PRESIDING MEMBER GEESMAN: Ed.

18 MR. FERRER: Good morning,
19 Commissioners. I'd like to commend staff for a
20 wonderful job on the presentation that they did.
21 They certainly amassed an awful lot of information
22 and were able to convey it in a very concise
23 precise manner.

24 One comment that I believe Gordon made
25 in his presentation I'd like to correct for the

1 record is that we do not handle a lot of crude
2 products in the L.A. area. We're basically
3 strictly refined products. We do have some crude
4 storage at our facility, but it's very minimal
5 compared to the real volumes that we do handle
6 there.

7 And another question I believe,
8 Commissioner, you had about the appeal of the
9 planning commission. Typically on a conditional
10 use permits are handled by the planning
11 commissions or the local jurisdiction. Citizens
12 or council members have the right to disagree with
13 the commission's decision. They have the right to
14 elevate it to the city council.

15 And it was appealed to the city council.
16 And we had a meeting scheduled for May 4th and we
17 elected to go back and meet some more with the
18 NRDC and some of the other environmental groups
19 and see if we could resolve our differences so
20 that it would make it a more appealing project
21 environmentally and to the local community.

22 PRESIDING MEMBER GEESMAN: So you've
23 been approved in the Carson Planning Commission,
24 and then were appealed to the Carson City Council?

25 MR. FERRER: That's correct.

1 PRESIDING MEMBER GEESMAN: And is there
2 a time limit on either one of those bodies?

3 MR. FERRER: There was a time limit on
4 the City Council. They had up to 60 days, but we
5 elected to ask for an extension --

6 PRESIDING MEMBER GEESMAN: I see.

7 MR. FERRER: -- so to resubmit and
8 reprocess the EIR.

9 PRESIDING MEMBER GEESMAN: Okay.

10 MR. FERRER: And last but not least,
11 Commissioner Boyd, I believe you had a question
12 about the insignificant role that Kinder-Morgan
13 plays in the --

14 ASSOCIATE MEMBER BOYD: Yeah, the words
15 market power were going through my mind, but I
16 chose not to say it publicly.

17 MR. FERRER: In the northern area, in
18 the Bay Area, there are other proprietary
19 pipelines that do serve as terminals that are not
20 directly in the refinery centers. There's a few,
21 also local, in the L.A. area that serve as
22 proprietary terminals that do not go through our
23 system.

24 Our area of expertise is the long-haul
25 transportation or the remote markets and the

1 growing markets. And because we are a common
2 carrier we're able to bring products from all the
3 different individuals and combine them and make a
4 project to be cost effective, rather than because
5 we can handle a larger volume of product than say
6 an individual shipper, supplier would be able to
7 do.

8 So part of that infrastructure is
9 construction of new tanks, bigger terminals. We
10 have distribution terminals at the end of our
11 pipelines that we either operate on behalf of the
12 customers, or that the customers lease from us and
13 we deliver product into their tanks and eventually
14 into the trucks.

15 That's kind of like --

16 ASSOCIATE MEMBER BOYD: Would you want
17 to comment on your neighbors over there at Chemoil
18 on their project?

19 MR. FERRER: I'm not privy to what
20 conversations they've had on that. I do know that
21 the line that is in question is a proprietary
22 line; it's not part of the common carrier system.
23 We do have on our internet published tariffs and
24 conditions on what the requirements are to tie
25 into the FERC-regulated lines that we do have, and

1 the CPUC lines that -- the Public Utilities
2 Commission lines that we do have. Those are
3 published. All the customers have to do is meet
4 those criteria and they can tie in.

5 ASSOCIATE MEMBER BOYD: Well, perhaps
6 the two of you might want to talk about that at
7 the end of this --

8 MR. FERRER: We'll exchange cards
9 afterwards and see what's going on.

10 ASSOCIATE MEMBER BOYD: I'm painfully
11 aware of this project, and I'm concerned that
12 somebody seems -- who has been given lots of
13 public rights-of-way, et cetera, seems to be able
14 to block, you know, the addition of a facility
15 that would address our needs here in California.

16 But perhaps I'm mistaken and perhaps the
17 two of you can talk more about this. But this
18 project's been hanging out there. We have
19 absolutely no regulatory power. I believe Mr.
20 Hamburg referenced various state agencies. We are
21 intimately familiar with this; we've talked about
22 it legally; we've talked to FERC; we've talked to
23 a lot of other legal and procedural jurisdictions.
24 But we are somewhat powerless short of just public
25 discussions like this, or so on and so forth.

1 So I look forward to maybe some
2 resolution of this issue hopefully.

3 MR. FERRER: I'll follow up on it with
4 him.

5 DR. TOOKER: Ed, I have a question. To
6 what extent do you agree with the projections made
7 by staff about the expected need for expanding
8 infrastructure including pipelines and storage?
9 And to what extent does that reflect any of the
10 future planning of your business?

11 MR. FERRER: We're pretty close on the
12 numbers, I think. Most of our growth projections
13 are basically in the southern part of the state
14 and in the Sacramento area. Those seem to be the
15 growing markets.

16 We supply the markets in San Diego, the
17 Inland Empire, which is rapidly growing. But we
18 also handle all the fuel that goes up to Vegas and
19 Phoenix. So, all of those are growth projected
20 area.

21 Since 1999 we built the 13-mile project
22 between the City of Watson, our Carson facility,
23 our Carson pump station, and Norwalk to allow to
24 increase our capacity of through-put to Colton.

25 In 2001 we added 30 miles of pipeline to de-

1 bottleneck the area through Pendleton to allow
2 increased deliveries into San Diego.

3 We just started construction on a 70-
4 mile project to replace our 14-inch line between
5 Concord and Sacramento. And we also have a
6 project on the books for 18 tanks at the Carson
7 facility to handle refined petroleum products.

8 So we're anticipating a lot of growth in
9 these areas, but because we are a common carrier
10 we're trying to build the infrastructure to
11 support the growth of these areas.

12 As far as the permitting I just named
13 about four or five of the major projects that
14 we've handled. And the one comment I'd like to
15 make is I have not been in front of the same body
16 of people twice.

17 So the whole process, the whole --

18 PRESIDING MEMBER GEESMAN: Has that
19 helped you or hurt you?

20 (Laughter.)

21 MR. FERRER: It adds considerably delays
22 in the timelines. I think most of the agencies
23 have found that once we're done with the project,
24 to everybody's satisfactory project, and there has
25 not been any environmental issues with the

1 project, but the point being is that there's a lot
2 of time that is spent educating and re-educating
3 folks.

4 Each one of the agencies has a procedure
5 by which they select somebody to head up the EIR
6 process. All of those have usually been different
7 groups. Some of them we've been very fortunate to
8 work with the City of Carson, that they have been
9 very knowledgeable about refinery infrastructure;
10 they do this all the time. So they own their
11 standard terminology and these kind of things.

12 In other areas we haven't been so lucky,
13 and it's a whole educational process about what
14 the pipelines are, what the benefits represent.
15 We do have an aging infrastructure in the state.
16 And this provides a method for upgrading and de-
17 bottlenecking and insuring public safety as a
18 means of going forward and meeting future demands.

19 One of the comments I would have to make
20 on the permitting side is I go back to the first
21 gentleman's comment, is that if there was a
22 standard methodology for mitigation measures that
23 was in mitigation, and I'm referring more on the
24 environmental side, on the different species, it
25 would go to great lengths to help expedite in the

1 permitting process.

2 Fish and Game down in southern
3 California views things differently as Fish and
4 Game in northern California. The Army Corps of
5 Engineers in the Bay Area looks at things
6 differently than the Sacramento.

7 So, for us to initiate a project and go
8 forward it is somewhat of a significant guessing
9 game as to whether we're going to get total
10 cooperation from the agencies; are the agencies
11 going to get impacted by turnover of the people;
12 somebody working on the project; and all of those
13 impact delays.

14 Other than the tank project, the other
15 three projects I mentioned all took over three
16 years to permit and acquire the land and stuff.
17 And most of them took less than eight months to
18 build.

19 PRESIDING MEMBER GEESMAN: Something
20 wrong with that picture.

21 ASSOCIATE MEMBER BOYD: The new pipeline
22 between Concord and West Sacramento, that replaces
23 the pipeline that unfortunately we had the leak in
24 the Suisun Marsh, is that correct?

25 MR. FERRER: That's correct.

1 ASSOCIATE MEMBER BOYD: And that new
2 pipeline permitting took roughly three years?

3 MR. FERRER: I'm sorry?

4 ASSOCIATE MEMBER BOYD: The permitting
5 for that took roughly three years?

6 MR. FERRER: Yes . We started in July of
7 2001 on that permitting process.

8 ASSOCIATE MEMBER BOYD: Thank you.

9 MR. FERRER: Any other questions? Okay.

10 PRESIDING MEMBER GEESMAN: Tom.

11 MR. UMENHOFER: Thank you, Commissioner
12 Geesman. Going to look at -- as a process guy,
13 looking at your clock; it's 12:00. If you'd like
14 to continue?

15 PRESIDING MEMBER GEESMAN: Yeah, --
16 we'll continue.

17 MR. UMENHOFER: Very good. Very good.
18 I wanted to start by talking a little bit about my
19 role. I have been brought in on this as an
20 independent third party to collect data on the
21 refineries, related to the WSPA numbers. And I've
22 been working with your staff, as you may know, for
23 some time on this.

24 And so I'm what they call the de-
25 identifier. I'm the one who can collect data from

1 the different entities and do what I need to do to
2 sanitize it and to get something useful out of it.
3 And what I hope to do today is to provide some
4 enduring value. I like that term. I'll find a
5 place to use that in the future.

6 On this particular issue I also have a
7 considerable amount of experience. I've done
8 licensing of energy facilities for over two
9 decades and not only familiar with the permitting
10 structure for gas and oil, but also for power
11 generation facilities. Quite familiar with the
12 CEC process. So try and integrate those thoughts
13 as I go along.

14 And what I wanted to do is try to answer
15 specifically questions 3 and 4. And you'll hear
16 from Joe after me, and he will address the other
17 questions. But I wanted to specifically address
18 those.

19 And I'm kind of glad, it wasn't by
20 design, I'm kind of glad you heard some of the
21 WSPA members speak before me, because they talked
22 about specific problems that they had.

23 And if you look at your question number
24 3, asking for assistance, and I think first and
25 foremost, we need to identify the real issues.

1 And this is what staff had asked me some time ago,
2 and it's not that complex. It is complex to look
3 at all the different concerns and complaints, but
4 when you boil it down it's not that complex.

5 I received information from virtually
6 every refinery in the State of California, and
7 problems that they had. And what I did was
8 through my experience I separated out the problems
9 related to what we're talking about, petroleum
10 infrastructure and just problems, complaints,
11 disagreements and so on, okay. And when you do
12 that things get quite compact.

13 Up on the screen is a handout that I
14 had. And from all the cases that I had, and
15 actually you heard a couple of them today, it
16 boils down to process rather than rules. It's not
17 the air rules, not the water rules, not land use
18 rules, it's not even CEQA, per se. It's the
19 process. It's how those rules and policies are
20 implemented from agency to agency.

21 And if you look up there, I want you to
22 look at the center column. And it comes down to
23 this: inconsistent data requests; sometimes
24 untenable mitigation measures; and then when you
25 add it all up, those two and other things, the

1 lengthy permitting. And you've heard this
2 already, you've heard some of the timelines
3 already.

4 Your consultant, ICF, came to similar
5 conclusions that I came to in terms of how the
6 rules and regulations and policies are implemented
7 are a problem. And it relates to process.

8 What I wanted to do is I wanted to very
9 briefly give you a sense of the three major
10 issues. And first I want to start with the
11 excessive data requirements, or data requests.
12 And what I mean by that is that from agency to
13 agency they're asking more data and more data and
14 more data as time goes on. And it's what I call
15 going towards prescriptive compliance.

16 And what I mean by that is that certain
17 agencies want so much information that's really
18 not available at the time that you're permitting,
19 is that they want the sense that they already know
20 you're always going to be in compliance. Which is
21 a little bit different than the way things have
22 run in the past. You require a lot of
23 information, but compliance is when you're
24 actually operating and you're inspected and you
25 have to pass audits and son on.

1 There seems a tendency, and I got this,
2 wide-ranging, I've got wide-ranging data that it's
3 just that more and more and more data is being
4 asked for. And this stretches out time. Part of
5 it is inexperience, but I don't agree that
6 inexperience of agency staffs is the excuse. I
7 just think it's a different approach.

8 There are no limits to that, it appears,
9 in the permitting process. And I wanted to give
10 you a quick little example with my experience of
11 licensing through the Energy Commission.

12 The Energy Commission would say, tell me
13 what kind of power unit you're going to install.
14 So you might say, I'm going to install a Frame 7E,
15 okay, or an equivalent. And what the Energy
16 Commission would ask for is all the data that
17 would give us enough information to evaluate the
18 worst potential impacts to the environment.

19 What we're seeing in other venues is
20 that the agency would ask for, well, we want you
21 to give us not only that one model, but every
22 model that's equivalent, and the details of those
23 models. And the lube oil you use in those models.
24 And if you can get it, the label off the lube
25 bottle. It's just we don't know what the lube oil

1 is going to be for the model; we're not sure what
2 the model is.

3 So there just seems to be a different
4 thing here in terms of requirements. And so what
5 I'm saying is how about establishing a limit. And
6 I'm going to talk about opportunities in the
7 future.

8 The second item that was really clear is
9 mitigation measures that seem to be limitless at
10 times, and seem to really delay the process. And
11 also seem to come from not only agencies, but just
12 about anybody who wishes to suggest a mitigation
13 measure. Again, there's no guidelines; there's no
14 consistency; there's no best control approach.

15 And the final thing is lengthy
16 permitting. And lengthy permitting results from
17 agencies arguing with each other as to who's the
18 lead agency, and what role each agency has to
19 iterative public hearings, to appeals that have no
20 policy that causes those to add, and it may be
21 part of a strategy, it may not be, but it is
22 sequential permitting. And again, my experience
23 with CEC, there is good policy to deal with that
24 type of thing.

25 Now, those are the three major issues.

1 And what I put at the bottom is uncertain
2 permitting and timelines and costs. These are
3 projects that never make it to the permitting
4 process. And I was asked that question by your
5 staff, what about that. Does that occur. And it
6 certainly does.

7 And through my own experience, and Joe
8 may talk about the management end of it is, from
9 my experience if I go to a management team and
10 say, I don't know what the costs are going to be
11 because there's a potential of emission offsets
12 that are going to cost tens of millions of
13 dollars. I don't know if those emission offsets
14 are available. They may be, they may not be.

15 I don't know what the timeline's going
16 to be because the way things are set up, you will
17 probably have repetitive, iterative public
18 hearings. And I don't know exactly what your
19 costs are going to be because I don't know what
20 other kind of mitigation measures are going to
21 occur. And that's reality. That's what we're
22 dealing with right now.

23 So, my suspicion, that's not going to
24 fly very well with a management team trying to
25 make a decision of doing a project here or doing

1 it somewhere else. When they can't do it, do it
2 somewhere else.

3 These are the issues as I see them, and
4 I think they can be handled in a policy manner,
5 either working in conjunction with local agencies
6 or in some overriding kind of policy.

7 Let's go to the next slide. There we
8 go. So this is under number 4, what opportunities
9 to streamline. And I just call these policy
10 opportunities. And if all of these things were
11 occurring from a permitting standpoint we wouldn't
12 be here today. So that's my justification for
13 putting them up on the board and suggesting that
14 these are opportunities rather than things that
15 have been done.

16 This is no criticism of local agencies.
17 What it is is a comment on the fact that things
18 aren't getting done in an expedited manner to meet
19 the urgent need that you folks have talked about
20 today.

21 On the bottom I have established best
22 practices guideline. And we've heard today the
23 idea of best practices. And it's a good one. But
24 we have to go further. We have to go into how
25 those best practices are implemented. There's

1 best practices all around the state, but they're
2 not consistently implemented. And that's a
3 definite role.

4 And then some of the other items you
5 actually heard some of our panel talk about one
6 way or another from kind of the ministerial
7 permits to establishing criteria for mitigation.

8 All these things can be done. And in my
9 mind, in my experience, this is where the focus
10 ought to be. If we can accomplish these we are
11 going to have a more consistent permitting
12 process. I suspect a faster permitting process.
13 And I also feel that perhaps encourage more
14 projects to go forward than have in the recent
15 past.

16 PRESIDING MEMBER GEESMAN: Joe.

17 MR. SPARANO: Commissioners and
18 Advisors, thank you for giving me an opportunity
19 to speak with you today. I have had lots of
20 opportunities in the last year to appear before
21 the Commissioners and to have what I think has
22 been real constructive dialogue with you all. And
23 I commend the Commissioners and the staff for
24 putting not only so much effort into this really
25 important issue, but for maybe taking a step out

1 on the limb a little bit and trying to do
2 something constructive and positive that may not
3 be viewed as the only or right thing to do by a
4 broader constituency than the industry and
5 regulators that you have here before you today.

6 But I think it's an important point to
7 mention.

8 I'd like to do two things. One is step
9 back and make some observations about the broad
10 issues of supply and demand, because that's what
11 got us here. It's not we didn't just discover
12 after ICF's excellent presentation last year that
13 there were permitting problems. The genesis was
14 that supply has been completely outpaced by demand
15 in California. And per the staff's presentation
16 that will continue, and maybe continue to such an
17 extreme that we are left with a gap that's going
18 to be very difficult to make up.

19 I'd like to look for a moment at the
20 broad issues, and that includes public policy. I
21 think we need to develop, and you have made a
22 great start at it, a sense of vision, not just fix
23 the permit process. I don't know that you'd find
24 anybody on this panel that would argue with you
25 that it needs fixing. And you already know that

1 because you've created this effort.

2 There isn't one remedy, including fixing
3 the permit process, that's going to take away the
4 difficulties and the challenges that have grown
5 over the last 20 to 30 years. They are not just
6 California issues, but largely California has been
7 the land of emphasis for these issues that I'm
8 about to speak about.

9 We have a national problem, and that is
10 we don't have a national energy policy. I think a
11 national energy policy is important. And
12 California energy policy, which is something you
13 might have some input on, whereas you can't affect
14 national policy, something that gathers together
15 more than just the permit issue and the
16 infrastructure issue.

17 If we want more supply refinery capacity
18 is an absolutely key component; whether it's done
19 on the existing footprint, or whether it's done
20 with new refineries. They can't just be sited
21 anywhere, I know this group knows, but some in our
22 Legislature have not picked up on that yet. You
23 can't just put one out as far away from humans as
24 possible because then you don't have any pipelines
25 to bring the crude in or take the products to your

1 market which might be hundreds of miles away.

2 That's pretty inefficient. So I think you're on
3 the right track in addressing the problem
4 differently.

5 Efficiency improvements. The CAFE
6 standards; any work you can do with the state;
7 gather other states and go forward on your
8 initiative as contained in the IEPR, I think would
9 be very valuable and is a really important
10 component.

11 Alternative fuels. As you know the
12 members of WSPA have made great efforts in
13 research into alternative fuels, and we have been
14 supportive of your thrust in that area.

15 The infrastructure outside of
16 refineries. There needs to be a combination of
17 giving refiners and investors the ability to
18 increase the capacity in California, and at the
19 same time, if you will, hedge one's bets so that
20 imports of both components and finished products
21 can be brought into this state more readily and in
22 greater capacity than is possible right now.

23 And I want to be careful to mention that
24 it's that balance that's really important.
25 Because if we get to the point where we simply

1 have a better infrastructure to bring in more
2 crude, that won't cut it. Because the crude has
3 to go somewhere, and we don't have the capacity to
4 refine it. So that's a really important fact that
5 that balance continues to be important.

6 Fuel formulation requirements. You and
7 the ARB have made great strides in making sure
8 that we have the cleanest fuels on the planet.
9 And I have to say in response to Dave Smith's
10 comments, the members of this organization have
11 spent a lot of money and time and sweat equity and
12 interest on the part of the people involved in the
13 operation to create those cleaner fuels.

14 Domestic exploration and production.
15 Bad word, it goes under national energy policy,
16 but I think we cannot forget that we're at the
17 point now where we're importing 63 percent of the
18 materials that we use to fill out our product
19 demand. When you're importing 13- or 14-million
20 barrels a day of crude and product to meet a 20.5-
21 million barrel-a-day total demand, that to me is
22 danger. The danger sign should have been up a
23 long time ago.

24 Finally, an area that doesn't get much
25 talk here, and I think because any one of us

1 individually is not empowered to take care of the
2 problem, but mass transit, we are confronted in
3 California with an abject lack of mass transit
4 opportunities for our people. Some areas don't
5 lend themselves well to that, but I think if we
6 forget that and don't put some effort, perhaps led
7 by CEC initiative into that piece, then we're
8 missing the boat. Who's going to drive people out
9 of their cars? I don't think that's very
10 realistic. At least this current situation has
11 shown the distinct inelasticity between price and
12 the use of gasoline and other products.

13 And finally, better engine technology I
14 think is something that really needs to be folded
15 into this formula. We've got cars, P-ZEVs that do
16 a heck of a job running gasoline. Gasoline
17 engines that have no emissions, or at least
18 minuscule enough to make most of us happy.

19 So, from a broader perspective
20 standpoint I think it's real important that we
21 don't tie California to a situation where we
22 believe that imports and a better infrastructure
23 to bring those imports in is the sole answer to
24 our problems.

25 Now, to address questions 1 and 2, part

1 of this petroleum infrastructure has been covered
2 very well by the other speakers. I think you
3 know that our industry is pretty unique in terms
4 of the supply chain. It's global. We are
5 operating at or near capacity in our refineries
6 and the rest of the infrastructure as far as I am
7 aware. And it needs to be expanded. Your own
8 projections show pretty clearly that that's the
9 case. And the importation of feedstocks, although
10 it will be an important component of that, is not
11 the only remedy.

12 Your staff asked what are industry's
13 plans to expand current infrastructure. Well, we
14 haven't had that many plans. And I think you all
15 know that two of the big reasons for that is that
16 the process you've heard described here by many
17 others has been tortuous for any single project
18 proponent to bring a project home.

19 There have been three that were
20 mentioned in one of the conversations,
21 ConocoPhillips, Valero and now Paramount's new
22 project. That's all good. They're good examples
23 of projects that have come to fruition or will
24 come to fruition and result in additional supply.
25 That's three in a state with billions and billions

1 and billions of dollars of investment in petroleum
2 and other forms of energy. We shouldn't be proud
3 of that. It's an observation that it's something
4 that has happened along the way, and I'm glad it
5 has. But a whole lot more of that needs to be
6 done.

7 But this group today, and I'll finish
8 here, has the ability, I think, working together,
9 particularly with industry supporting the Energy
10 Commission as strongly as we can, and the Energy
11 Commission perhaps supporting bills like Senator
12 Torlakson's bill, SB-429, which has some terrific
13 elements of permit streamlining built into it.

14 If we can do that then we'll have a much
15 better opportunity for project proponents in this
16 entire industry to take a look at projects and
17 recommend that they be done to their boards.
18 Whether it's a \$2 billion, 100,000-barrel-a-day
19 refinery somewhere where people will accept it, or
20 whether it's an extension of a pipeline or a new
21 pipeline or a new terminal somewhere where we want
22 to gather material and reship them so that we can
23 satisfy the demand.

24 Most of us have trouble, if I go back to
25 my former life, recommending to boards that you

1 should take into account and support a several-
2 hundred-million-dollar project when you can't tell
3 them when it might be done, or even when you might
4 get the permits, and whether your price
5 projections will be any good at that time.

6 So, just some random thoughts. Thank
7 you for your time.

8 MR. BUELL: Before we proceed to Mr.
9 English I would like to find out if we have our
10 connection with our call-in line. So if there are
11 members out there on the call-in line, can you
12 answer if you're able to hear the meeting properly
13 and --

14 MR. LAUGHLIN: Yeah, this is Drew
15 Laughlin.

16 MR. BUELL: Okay, thank you. You may
17 proceed.

18 PRESIDING MEMBER GEESMAN: Joe, I know
19 you can't respond for any one company, but in a
20 general sense, thinking in terms of your members,
21 do you have an idea as to what kind of internal
22 return hurdle rate we should assume is brought to
23 bear in deciding when to make new capital
24 investments in California refining capacity?

25 MR. SPARANO: Your first statement was

1 correct. That is an issue that is so
2 fundamentally unique to each company's cost of
3 capital that I can't really cover it.

4 But I think to the extent, just think
5 about some of these numbers. The industry
6 nationwide has spent close to \$100 billion in the
7 decade from '92 to 2002 on all sorts of petroleum
8 industry products. Forty-eight billion of those
9 98 billion have been spent on purely environmental
10 and other regulatory projects.

11 Companies have been willing to do those
12 in part because they'll stay in business. So
13 there's no big surprise there. But also in part
14 because we have a commitment, and we've
15 demonstrated that because I know of lots of
16 companies, as Gary mentioned, that didn't take the
17 opportunity to invest in those. And some of them
18 that are near and dear to me are no longer in
19 business. And we all know those stories.

20 But I think because if you just looked
21 at that demand line and the supply line it doesn't
22 take a rocket scientist to see there is a load of
23 opportunity for existing and new companies to
24 invest and to have the perspective of earning
25 really good returns to make up that gap. The gap

1 is extraordinary. And the only way to fill it is
2 either make it here or bring it in from somewhere
3 else.

4 And I suggested to you today that if we
5 cast our lot with bringing it in from somewhere
6 else and have that too strong a component, we're
7 going to be in trouble.

8 PRESIDING MEMBER GEESMAN: Thank you.

9 ASSOCIATE MEMBER BOYD: Joe, your very
10 first point was refinery capacity expansion. And
11 I think we've had this discussion before in other
12 hearings.

13 And we pretty well understand, you know,
14 California is allegedly a tough place to expand.
15 And so we haven't seen it happen.

16 But if I remember from the staff
17 presentation earlier the last new refinery built
18 in the United States was in California a long time
19 ago. And so it has continuously made me wonder
20 about the entire business within the United
21 States. That is, we're worried about our
22 dependence on other places in the world for
23 supply. But we seem to be more and more becoming
24 dependent on people that even refine product.

25 Is there some new paradigm shift that

1 perhaps could occur that is going to cause the
2 industry to decide that it really wants to expand
3 refining capacity in the United States and/or in
4 California? Because there just hasn't been much
5 of that for so long that it makes one wonder.

6 MR. SPARANO: A good and fair question.
7 The last refinery built in the U.S. was in 1976 in
8 Louisiana. Our last refinery was in 1969 at
9 Benecia. Those are both a long time for an
10 industry to not have a new factory.

11 There are three reasons that go into
12 that, though, and I think we're getting at one and
13 maybe two of them; and the third, I don't know if
14 we can do much about. So let me start with the
15 third.

16 The third is this is costly, \$2- \$3-
17 billion. I've seen some industry leaders suggest
18 that 100,000-barrel-a-day plant will cost in that
19 range. That is a lot of money for any corporation
20 anywhere.

21 The second and the third, each of which
22 I think we can have some influence over
23 collectively, and the Energy Commission
24 particularly, are the permit process. Just how
25 anxious would you be if you owned a company and

1 had shareholders concerned about their rate of
2 return to run off and invest \$1- or \$2- or \$3-
3 billion if you couldn't assure them that you even
4 had a timeline to get the permits. The permit
5 system is something that needs attention, and I
6 applaud you, I'll even stand up and applaud you
7 for addressing that.

8 The third piece is something that is
9 perhaps more problematic and that means it's
10 almost societal, which is why we need a state
11 energy policy. This notion of NIMBY-ism.
12 Refineries are best built along coasts. And I'll
13 say that generically without any special
14 knowledge. But, it's a whole lot easier to run a
15 plant on a wide variety of crudes that you can
16 bring in in large lot size by tanker.

17 You'd better be sure you can get a
18 dredging permit or else that ability starts to
19 decline with time and goes to zero theoretically
20 if you're never able to dredge your own dock,
21 which happens. One of the permit issues that
22 needs to be addressed is dredging.

23 If we can gain some cooperation without
24 going backwards environmentally, and I don't think
25 you've heard from the first moment, Mr. Geesman,

1 you and I sparred about that a year ago, there's
2 no inclination on the part of this industry to go
3 backwards. And if that's really the mindset, if
4 you all really buy into that, then there ought to
5 be a way to connect that to the public support
6 that is necessary to build a plant.

7 Otherwise you have a group of companies
8 that are looking at a state or a nation where the
9 public is saying clearly, we don't want your type
10 of facility near us. You can put it out in the
11 boonies somewhere hundreds of miles away and
12 increase your investment by 10, 20, 30, 40
13 percent. Because you have to move all the crude
14 and all the products hundreds of miles to markets
15 that don't exist around your facility.

16 Those are fairly daunting hurdles that
17 companies who would like to build something have
18 to get over. And so maybe folks have opted for
19 investing in foreign lands where the labor is
20 cheaper; where the environmental rules, perhaps,
21 are not as strong; and we get to export our pain
22 somewhere else, according to some folks.

23 Some of that appears to have happened
24 over time, because our capacity has shrunk by 1.8
25 million barrels nationwide since 1981.

1 I can only give you those factors. I
2 wish I could give you a solution, but I think in
3 two of the areas collaboratively we have the means
4 to work toward those solutions.

5 PRESIDING MEMBER GEESMAN: Bill.

6 MR. ENGLISH: Thank you. I'm Bill
7 English; I'm with Altos Market Modeling
8 Consultants. You may be familiar with Altos a
9 little bit. Our NART model is used by the
10 California Energy Commission for natural gas. We
11 also have models for the rest of the energy
12 complex, including oil.

13 I also derive my comments from my 32
14 years at Chevron. Got a lot of experience in the
15 supply and distribution and refining areas. So
16 I'll have a couple of comments.

17 First off, I would like to say that I
18 think you're focusing on the thing that you can
19 impact the most. I'd like to thank you for that,
20 because, you know, I get concerned when government
21 agencies try to become too prescriptive about how
22 the industry should do things.

23 And in this case I think what we're
24 trying to do is make sure that the industry can
25 get things done as fast as they can. And I think

1 that's what we should be doing.

2 I'd like to second some things that were
3 said here. The idea of having rules that people
4 know ahead of time and can plan on, I think, are
5 really important. K.C.'s suggestion to
6 standardize some of the procedures, you know, I
7 think that's a really good idea.

8 You know, a new tank is a new tank is a
9 new tank almost. I mean not exactly, but you
10 know, a gasoline tank, you know, you've seen a
11 hundred of them. The next one that comes along
12 you're not solving a new problem.

13 Rather than trying to reinvent the wheel
14 every time because, you know, you're giving it to
15 a new agency, and et cetera, et cetera. There
16 really needs to be some standardized procedures.

17 I think other people have mentioned that, but
18 I just wanted to second that.

19 There was a comment that was made, a
20 question, I hope it was an idle question, but I
21 wanted to address it. There were a lot of
22 parallels drawn between the oil market and the
23 power market. And there are some parallels, but
24 there's a really big difference that needs to be
25 understood. And that's that the power market

1 produces something that can't be stored. And as a
2 result you have to meet peaks and demand every day
3 from generation. Where in the oil market that's
4 not the case, you know. People go to their gas
5 station and, you know, the demand peaks during the
6 day and the refineries don't see it because
7 there's inventory.

8 So inventory and tanks are what causes
9 the market to run smoothly and allows the
10 refineries to run at a smooth rate. The
11 generation plants would love to be able to do that
12 if they could; it's much more efficient. But,
13 they can't.

14 So where you need to focus is on the
15 things that make the industry work smoothly, and
16 that's tanks and pipelines. And which, I know, is
17 what you're doing. But I wanted to focus on that.
18 And I got a little concerned when I heard someone
19 mention the idea of perhaps a, you know, some
20 prescriptive requirements on capacity.

21 There was some discussion about the
22 amount of capacity creep in our forecast, and I'd
23 like to differ a little bit with what was put out
24 there. I think that we've seen historically
25 higher capacity creep than was shown, particularly

1 in the last several years capacity creep has
2 actually increased. And that's because of
3 refinery margins, you know, refiners can see money
4 in expanding to the degree that they can without
5 spending huge dollars, and they've done that.

6 I think that's going to continue as long
7 as refinery margins are there. Now, it won't mean
8 that it will meet the full demand increase,
9 perhaps, but I do think that the gap's going to be
10 smaller than we've seen there.

11 PRESIDING MEMBER GEESMAN: Do you think
12 that there is any likely change from the
13 historical trend?

14 MR. ENGLISH: I think it's accelerated
15 in the last several years in capacity creep. And
16 I think that's going to continue for, I can't tell
17 you how many years, but I think that, you know, as
18 long as the -- you know, refiners are commercial
19 organizations. When they see a high margin
20 they'll go for it.

21 To back up a little bit, you know,
22 Commissioner Boyd asked about refinery capacity in
23 the U.S. You've seen a decline in refining
24 capacity since the 1980s. Well, what happened was
25 during the energy crisis in the '70s prices rose a

1 lot. And we ended up in the early '80s having a
2 kind of crisis in the oil industry because of
3 demand destruction due to the higher prices.

4 So we do see a response of demand to
5 price. And that big reduction in demand has
6 carried through until almost today. If you look
7 at a chart of demand, I mean it drops and then it
8 rises back up again. And that is in crude oil
9 through-put.

10 And so you'll find that refinery margins
11 were very poor during the '80s and started picking
12 up a little during the '90s. And not until just
13 recently, I mean the last few years, have refining
14 margins actually been sufficient to support people
15 making substantial investments.

16 So there's no way anybody would build a
17 refinery in a situation where there wasn't a good
18 margin. By a good margin I mean one that actually
19 gives you a reasonable rate of return for a \$1
20 billion investment. And that just wasn't there.
21 So that's why you haven't seen any more
22 refineries.

23 I don't see a lot of people making
24 permit applications for whole refineries. Maybe
25 we will in the future sometime, but I think that

1 most of what people are going to find is that
2 they'll go for incremental additions to their
3 refineries. So you may well find permit
4 applications for new catalytic cracker or some
5 additions that help to fill out the refinery to
6 increase incrementally as time goes on.

7 PRESIDING MEMBER GEESMAN: And would you
8 care to speculate on what the return requirement
9 for those types of investments are?

10 MR. ENGLISH: Well, I think typically 15
11 percent, approximately.

12 Oh, another thing -- well, time's
13 getting late; I'll keep my comments short. So,
14 I'll leave it at that.

15 PRESIDING MEMBER GEESMAN: Thank you.
16 Dominic.

17 MR. FERRARI: Good morning,
18 Commissioners. Thank you for the opportunity to
19 be here today. Dominic Ferrari with Pacific
20 Energy Partners in Long Beach.

21 A lot of the focus of your panel today
22 and of your Commission is streamlining the
23 permitting process. And I would like to just give
24 you a brief update on a major project that we're
25 trying to permit right now. I'll be real brief,

1 and, of course, solicit your help.

2 The bottomline quickly on Pacific Energy
3 Partners, I don't know if you're familiar. Real
4 brief, we are a pipeline and terminal company.
5 Our origin is in California. We own the major
6 pipelines that run from Bakersfield. Our main
7 production area is to the L.A. refineries. And so
8 we move oil from the L.A. refineries.

9 We own pipelines in Canada and also in
10 the Rocky Mountains. So we use Canadian oil to
11 supply our Rocky Mountain friends.

12 We also own a major terminal in Los
13 Angeles and we own 9 million barrels of crude oil
14 storage. It's very important, a lot of the
15 comments that have been made earlier about the
16 need for storage tanks. And we own them; we have
17 them. And if you're going to build a marine
18 facility you really need that to make it work.

19 So, this Pier 400 project is really a
20 very logical project for a company, and we're very
21 excited about it. That's a brief on our company.

22 On the project, itself, we basically
23 early this year made the real -- got the green
24 light to go. And what I mean by that is we got
25 approval from our board of directors to expend the

1 full amount of money.

2 One of the reasons why we're able to do
3 that is when you build a major project like us,
4 you have to have backers, users. And we were able
5 to sign a Valero refinery under a financial
6 guarantee for 30 years, for 50,000 a day. That's
7 how our world works. You really need the users to
8 support you financially. That was a major step
9 forward, and it's done. And we're moving forward.

10 The berth, the Pier 400 berth is ideal
11 for what we're talking about, and why I say that
12 is we do have 81 feet of water, water depth. A
13 lot of talk, the discussion has been about
14 dredging and the depth of water allows, basically
15 allows the largest vessels in the world to call.

16 Now, that's important because the
17 refineries are very competitive; they want to be
18 able to buy from all over the world. If they can
19 bring in a larger tanker their costs are lower,
20 and they could pass it on to the consumer.

21 The second reason why the water depth is
22 important, and somebody alluded this morning to
23 it, is if you bring the oil in in a large tanker
24 you can bring it in, offload it quickly, and you
25 don't have to bring in numerous smaller tankers.

1 And that's very important when it comes to --
2 we're talking about vessel emissions.

3 So the 81 foot of water is a big plus.
4 The Port of Los Angeles has completely dredged our
5 area out, and will continue to, the main channels
6 there. And this is a real asset for the State of
7 California, what the Port of L.A. has accomplished
8 there. And we've obviously been working with the
9 Port very closely on this.

10 As far as the estimated costs, we're
11 probably looking at \$130 million for a project
12 like this. Even though we have 9 million barrels
13 of tankage, we would need an additional, I'd say
14 at the most, 4 million barrels, you know, because
15 of the variety of crudes coming in.

16 There's obviously other discussions
17 going on with a lot of users, integrated oil
18 companies, traders, producers all around the
19 world.

20 The good news is that the NEPA and CEQA
21 process has begun. And we have our first public
22 scoping meeting on July 8th. So this is really
23 the front end of the, you know, the CEQA process.
24 And we're very excited about that.

25 One comment I'd like to make is even

1 though we're at the front end of the CEQA process,
2 we have been trying to develop this project for
3 several years. And we have talked, met with just
4 about every agency there is that's going to be
5 involved, and gotten their input.

6 We've met with the public that's going
7 to be involved. And so I'm not trying to say that
8 everything's going to go smooth, but our approach
9 to this project was total involvement. And it's
10 been a couple years just to get to this point. So
11 we feel we've got a lot of great input, a lot of
12 the agencies that are here today are actively
13 participating with us in this project, which we
14 really appreciate.

15 I know we're running out of time, but
16 real quick I'm just trying to see -- there is
17 absolutely no doubt that the largest permitting
18 issue will be the emissions from the vessels. Our
19 project will emit very little emissions. But when
20 the marine vessels come in they emit. The AQMD
21 will permit that, and that's going to be a major,
22 major issue.

23 The only thing I'd like to comment on
24 that is that as you all know, you are allowed to
25 purchase credits, emission reduction credits on a

1 major project. And our company has already
2 purchased 60 percent of the NOx, SOx credits to
3 offset this project.

4 So, again, we're not sitting around
5 waiting. We're very proactive in -- you know,
6 these credits, it's a commodity. It's on the
7 market. When they come on you have to buy them.
8 So we have basically purchased 60 percent of the
9 credits. So I thought I'd let you know that.

10 And we're taking everything we can to reduce
11 emissions.

12 Lastly, and most importantly,
13 participation of our local community is vital to
14 this project, and I think to any project in
15 California. And we have had many meetings and
16 plan to continue to involve our local community.
17 We want to build a world class facility and
18 basically address all the concerns.

19 But, we are here for any help in
20 streamlining this process as we go. Thank you.

21 PRESIDING MEMBER GEESMAN: Thank you,
22 Dominic. Mike.

23 MR. GRIMES: Can I add a word of support
24 for Dominic's project? Paramount, I think your
25 staff got it slightly off, we're one refiner

1 that's neither on the Pacific Coast with our own
2 proprietary pier or on the Kern River. We're out
3 in the middle of a cow pasture. It was originally
4 a cow pasture, now we have WalMart next to us.

5 And we would like to have more
6 facilities open to open systems for bringing crude
7 in.

8 PRESIDING MEMBER GEESMAN: Mike.

9 MR. PETERSON: My name's Mike Peterson.
10 I'm here representing ST Services. ST Services
11 operates five bulk liquid terminals within the
12 State of California.

13 Probably want to just discuss some that
14 are more directly involved in this distribution
15 and the infrastructure for gasoline and diesel
16 within the State of California. And those would
17 be the three Bay Area terminals, and the one
18 terminal in Stockton.

19 I don't know that I can add much more
20 about the regulatory and regulatory issues.
21 That's been over and over again. Although if you
22 talk about the infrastructure it will probably
23 eventually get back to the regulatory issues that
24 are involved with expansion of systems.

25 But to give you an idea, as everyone's

1 aware, Kinder-Morgan had a couple of incidents
2 here, and we're directly tied in in most of our
3 terminal locations with Kinder-Morgan. And
4 speaking of one terminal outside of the state we
5 have in Sparks, Nevada that supplies jet fuel to
6 the Reno Airport. And when the pipeline went down
7 because of the Suisun Marsh incident, there were
8 concerns about having to truck the jet fuel into
9 that area.

10 Similar pipeline incident, but not
11 really directly as a result of the pipeline, was
12 the levee break that resulted in a seven-day
13 shutdown of that Kinder-Morgan pipeline. Our
14 terminal in Stockton distributes gasoline, diesel
15 and ethanol. We ship approximately 225 trucks a
16 day through that terminal. We lost what would be
17 a complete cycle of gasoline, so that carriers
18 were traveling from that Central Valley over to
19 the Bay Area to pick up the gasoline and diesel
20 needs for the Central Valley. Not all. Some were
21 able to supply those fuel needs from those not
22 impacted by that pipeline.

23 In order for us to do more and expand
24 more in that operation of that facility, we're
25 directly tied into Kinder-Morgan. Kinder-Morgan

1 supplies that Central Valley, and we've seen the
2 Central Valley, as everyone's aware, continue to
3 grow and increase.

4 I think what we have seen with increased
5 gas prices, but not a decrease in the consumption
6 of gasoline and diesel is the fact that we have
7 that public who commutes, and they're willing to
8 commute from the Central Valley back into the
9 major metropolitan areas to work. But enjoy the
10 cost of housing in those outerlying areas. So we
11 just have not seen any impact at the Stockton
12 terminal in reduction, other than when we could
13 not get the gas or diesel as a result of the
14 pipeline shutdown.

15 Moving over to the Bay Area, the
16 terminals there are connected in with Kinder-
17 Morgan through a couple of different types of
18 connections. Two of the terminals through
19 gathering lines that go into Kinder-Morgan in
20 Concord; and our Martinez terminal that has a
21 direct pipeline from our facility that we pump to
22 the Kinder-Morgan terminal at Concord.

23 So we have some disadvantages there in
24 the gathering systems; some real advantage in the
25 Martinez terminal with the direct pipeline to

1 Kinder-Morgan.

2 We look to expand here in the Bay Area
3 with what we've done in the past year, and this
4 year and into next year, about three-quarters of a
5 million barrels of capacity. That capacity can
6 move in and out by water. We do, and receive all
7 products by barge, by vessel, and can move those
8 that direction. But also move by pipeline.
9 Anything that interrupts the pipeline impacts all
10 of our customers.

11 Us being an independent terminal we
12 don't own the products; we supply services to the
13 major manufacturers of those products, independent
14 traders, even some importers that are bringing
15 that supply of gasoline and diesel in. So it
16 interrupts their activities and their ability to
17 transport those fuels throughout the state.

18 So it kind of goes from the
19 infrastructure back to the regulatory. Those
20 things that can help expand the capacities for the
21 infrastructures are directly related to how
22 quickly they can be put in place.

23 With our terminals we haven't had lots
24 of difficulties. But I think the permit process
25 probably goes less for us because we don't cross

1 multiple municipalities that have different needs
2 and different concerns. Most of those are with
3 specific regulatory agencies. And then the local
4 municipality that we're sited at. So we don't
5 experience some of the others.

6 But do in that the fact that I agree the
7 need and the information that comes in is always
8 different. We see a wide variety of requests for
9 things that we're supposed to do, and even in
10 currently with the State Lands renewal for our
11 license in Martinez. Of course, we talk to other
12 facilities and find out what information, what
13 requirements they have, and just try to match up
14 and see where and what is different for our
15 particular renewal against others.

16 But, again, we're tied into that
17 infrastructure system that has to be there to move
18 the products throughout for our customers. Things
19 that interrupt that, prevent that from expanding,
20 limit the ability to move those products.

21 PRESIDING MEMBER GEESMAN: Thank you,
22 Mike. I don't see any questions up here.

23 We've had a long morning. Why don't we
24 break for lunch now and reconvene at 2:00.

25 (Whereupon, at 12:49 p.m., the workshop was

1 adjourned, to reconvene at 2:00 p.m.)

2 AFTERNOON SESSION

3 2:03 p.m.

4 MR. BUELL: The afternoon session we'll
5 be discussing the same sort of issues with our
6 agencies. And I'd like to begin by asking the
7 members of the panel to introduce themselves and
8 their affiliations, starting with Michael at
9 the --

10 MR. CHAM: Michael Cham, Port of Los
11 Angeles.

12 MR. GOLDMAN: Matt Goldman, Port of Long
13 Beach.

14 MS. COY: Carol Coy with the South Coast
15 Air Quality Management District.

16 MR. GREGORY: Gary Gregory with the
17 California State Lands Commission Marine
18 Facilities Division.

19 MR. HILL: I'm Steve Hill with the Bay
20 Area Air Quality Management District.

21 MR. PRISAMENT: Morty Prisament with the
22 City of Richmond.

23 MS. HAMMER: Kitty Hammer, City of
24 Benecia.

25 MR. HANSEN: Jim Hansen, City of El

1 Segundo.

2 MS. REPP-LOADSMAN: Sheri Repp-Loadsman,
3 City of Carson.

4 MR. PETEK: Steve Petek, City of West
5 Sacramento.

6 PRESIDING MEMBER GEESMAN: Thank you all
7 for being with us this afternoon. And I think you
8 were all here this morning for the presentations,
9 as well. So, why don't we start with that common
10 information base and, Michael, why don't you be
11 first and we'll just go around the table.

12 MR. CHAM: Sure, thank you,
13 Commissioners. Well, first I wanted to thank you
14 guys for having us all here. I've enjoyed the
15 presentations, and I thank the staff, as well.

16 I'm here representing the Port of Los
17 Angeles. And with regards to petroleum
18 infrastructure we have nine terminals with 12
19 berths which can import and export liquid bulk.

20 On our facilities we have about over 6
21 million barrels of storage capacity, so obviously
22 we do a lot of liquid bulk.

23 We've already talked about some of the
24 major proposed projects going on at the Port of
25 Los Angeles, which include Pacific Energy as well

1 as the main channel deepening. The trend has been
2 not just for this industry, but for cargo
3 containers, bigger and bigger ships, mega-
4 terminals.

5 But with regards to the discussions from
6 today, including the comments during the industry
7 roundtable, I only have a few things to add. One
8 of which is that I can most definitely concur and
9 agree with some of the comments on the permitting
10 process. It's something that affects our
11 projects, as well.

12 One of the things that our environmental
13 division asked to relay is with regards to
14 emerging environmental topics, consistency is
15 especially necessary, especially with new ones
16 like environmental justice, along those lines.

17 Expansion within the Los Angeles area is
18 going to have significant land use issues, as
19 well. Land is very scarce at the Port of Los
20 Angeles and Port of Long Beach, as well. And then
21 this industry would also need land located inland,
22 not just on the port facilities, but nearby. And
23 those issues are very significant, as well.

24 In 2001, Los Angeles Mayor Hahn called
25 for a policy of no net increase of air emissions.

1 And this has been a significant challenge to meet
2 the supply and demand of petroleum, as well as
3 other industries. But also adhere to that new
4 policy.

5 With regards to question 2, one of the
6 major things that I would just throw in, and this
7 is something that Pacific Energy has been very
8 good with us, working with us on this, is that
9 community participation and outreach is vital in
10 the Los Angeles area.

11 There's the neighborhood councils
12 established by a charter changes, as well as the
13 Port Community Advisory Committee. And oftentimes
14 it is -- well, not oftentimes, it is crucial that
15 the community feels informed enough to make
16 judgments and opinions on projects.

17 And with regards to petroleum
18 infrastructure the commodities, the types of
19 commodities and their impacts with regards to risk
20 management are a very sensitive issue.

21 And those are my only comments.

22 PRESIDING MEMBER GEESMAN: You mentioned
23 the need for inland real estate. With respect to
24 the projects that you've seen to date at the Port
25 of Los Angeles, have those included inland

1 properties outside the City of Los Angeles, as
2 well?

3 MR. CHAM: Well, what I was referring to
4 was more off-the-Port facilities.

5 PRESIDING MEMBER GEESMAN: Right.

6 MR. CHAM: And so that could be within
7 the City of Los Angeles, or within any neighboring
8 cities similar to Carson.

9 PRESIDING MEMBER GEESMAN: And on any
10 projects that you've been involved with at the
11 Port, have those included impacts on other
12 communities besides the City of Los Angeles?

13 MR. CHAM: Yes, yes.

14 PRESIDING MEMBER GEESMAN: And your
15 process then attempts to take into account the
16 participation of representatives from those other
17 communities?

18 MR. CHAM: Yeah. There are also
19 examples where facilities outside the Port
20 property can have an impact on our leasing, and as
21 we look to renew leases. That has been a
22 sensitive issue, as well.

23 DR. TOOKER: I have a question about
24 your comments about environmental issues. Was
25 your point originally that there are evolving

1 issues that are going to be requiring more
2 attention such as environmental justice?

3 MR. CHAM: Yeah, especially with new
4 emerging ones that are not quite as codified, and
5 the guidelines are not quite as established yet.
6 So they can go, as discussed during the industry
7 roundtable, many different directions when there
8 isn't much of a history with the emerging
9 environmental issues.

10 DR. TOOKER: So you're looking for more
11 guidelines or commonality in the way those are
12 handled by different agencies?

13 MR. CHAM: Exactly.

14 PRESIDING MEMBER GEESMAN: The Mayor has
15 articulated no net emissions goal. Does that
16 include emissions from ships, as well?

17 MR. CHAM: That is emissions from ships,
18 yes.

19 PRESIDING MEMBER GEESMAN: Thank you.

20 MR. CHAM: Thank you.

21 PRESIDING MEMBER GEESMAN: Matt.

22 MR. GOLDMAN: Thank you. I'd like to
23 thank the Commission for this opportunity. I feel
24 like everything's already been said, but let me
25 add a little bit more about the Port of Long Beach

1 and maybe how we operate and how we see things.

2 As is L.A., we're a landlord port. Many
3 of our decisions are based on a customer's need or
4 a tenant's needs, either existing tenants or
5 possible future tenants.

6 What we're seeing with this industry is,
7 as was mentioned by Gordon this morning, we were
8 having some discussions about potential new crude
9 facility, import facility, which included the
10 storage tanks, but it was really discussions that
11 were happening the same possible customer with
12 both ports and they opted for the Port of Los
13 Angeles.

14 We're having some discussions with an
15 existing tenant about just expanding their
16 facilities at the Port, adding tankage. And their
17 reasoning for needing additional tankage is that
18 they either need to bring in, start importing more
19 product than they used to, which I think is a
20 reflection of the refinery issues that refineries
21 are at capacity and just not able to, as far as
22 we're hearing, not able to meet demand anymore; or
23 won't be able to meet demand.

24 So, we're responding to those tenants by
25 trying to figure out how we can add tankage to

1 meet their future plans.

2 Having said that, also like Los Angeles,
3 we're -- inventory of available land is running
4 short. And in responding to tenants' needs or
5 potential customers' needs, and I think this goes
6 to question number 2, I think information that
7 we'd always like to see, which isn't always easy
8 to get, and maybe that's the nature of the
9 industry, is business plans; or something similar
10 to business plans that are talking about that show
11 the future and have some forecast of demand in the
12 future.

13 It's difficult for us to make
14 investments, I think, if we're not sure of what
15 the future is. But I think maybe that's the
16 nature of this beast, perhaps.

17 In terms of permitting it was nice to
18 hear Chemoil give us a compliment this morning. I
19 think that's always good to hear. I think what we
20 try to do is when we work with tenants and
21 customers is to really be forthright from the get-
22 go in terms of everything that we think has to
23 happen and what we think they'll need to do, and
24 what they'll need for us. And to really, if you
25 deal with it all upfront we find that it makes it

1 a little bit easier to stomach the length of the
2 process. And you don't have, hopefully, as many
3 hiccoughs.

4 PRESIDING MEMBER GEESMAN: How much lead
5 time do you typically get from either a tenant or
6 a prospective tenant about its interest in
7 additional facilities, or in a new project?

8 MR. GOLDMAN: You know, depending on the
9 size of the project, it depends. But it can be
10 months in advance, a year in advance. There's an
11 existing tenant we're talking to right that
12 there's been discussions going on for probably
13 about a year trying to figure out whether they
14 really need additional tankage; and for us to
15 determine if we can provide a location that's
16 suitable for them and meets their needs.

17 So, just even internally there's so many
18 issues that have to be discussed, you know,
19 engineering and the financial aspects of it, and
20 the environmental aspects. It can be a long
21 process.

22 DR. TOOKER: I have a followup question.
23 Do you have now or do you expect in the future to
24 have a need for having a structured protocol or
25 planning process with timelines like a five-year

1 planning process, or ten-year, to be able to
2 accommodate the needs of industry in the long
3 term?

4 MR. GOLDMAN: We have -- that's a good
5 question. We haven't really talked about it in
6 those definitive of terms. I think it would
7 probably be helpful if we did that, truthfully. I
8 think it would give everybody a better idea of
9 what is happening in the future.

10 I'm not sure I answered your question.

11 DR. TOOKER: I think you have.

12 MR. GOLDMAN: Okay, thank you.

13 DR. TOOKER: And what about Los Angeles?

14 MR. CHAM: Well, both Long Beach and Los
15 Angeles, we have port master plans certified by
16 the Coastal Commission. And in those master plans
17 we try to look at the trends, business trends.
18 And we try to figure out where the best uses and
19 where we can maximize our space, so that would
20 apply to all uses.

21 I know this because we're going to be
22 updating our master plan within the year, so
23 that's something --

24 DR. TOOKER: And what are the timeframes
25 for those plans?

1 MR. CHAM: For the port master plan?

2 DR. TOOKER: Right.

3 MR. CHAM: Environmental will take about
4 a year and a half --

5 DR. TOOKER: No, I'm sorry. If I read
6 the plan today would it be projecting over the
7 next ten years or five years --

8 MR. CHAM: It will be projecting over
9 the next 10 to 15 years, yes.

10 DR. TOOKER: Thank you.

11 MR. GOLDMAN: If I could just add to
12 what Michael said, we both do have master plans.
13 There are times where a potential use, you know,
14 both ports are divided into x number of planning
15 areas, and each planning area has allowable uses,
16 distinct uses that are allowed.

17 And there's occasions where an amendment
18 will have to be done to the master plan if you
19 want to fit a use into a certain area. Which,
20 again, given the issues with the inventory of
21 land, that seems to be becoming more of an issue
22 and more of a discussion point, you know. Where
23 can we put certain uses.

24 And, again, you try to avoid putting
25 certain uses too close to the adjacent

1 communities, you know,. If you can keep it away
2 from them, the better. But --

3 DR. TOOKER: And if those master plans
4 are not based on the business plans of individual
5 industries, what are they based on?

6 MR. GOLDMAN: Both ports have done and
7 continue to do and update, and I think we're
8 talking about it right now, we do cargo forecasts
9 that go 20, 25 years into the future, that look at
10 different land use types and look at the potential
11 for imports and exports. And you look at -- I
12 mean obviously both ports are big container ports,
13 but you also look at dry bulk and you look at
14 petroleum product and you look at other things
15 like that.

16 And a lot of decisions are, you know,
17 supported by those forecasts. So we try to keep
18 it pretty up to date.

19 DR. TOOKER: Thank you.

20 PRESIDING MEMBER GEESMAN: My
21 recollection is that last year when Commissioner
22 Boyd and I held a workshop, the Port of Los
23 Angeles described an experience that they'd gone
24 through I want to say three or four or five years
25 ago in attempting to solicit interest in an

1 energy-related facility that found no takers.

2 So, I recognize these forecasts can err
3 on the upside as much as on the downside. How do
4 you generate your forecasts for petroleum-related
5 product?

6 MR. CHAM: You know, I'm not
7 specifically involved in forecasts for petroleum,
8 so I couldn't tell you.

9 But I think that they may have been
10 referring to the Pier 400. And now Pacific Energy
11 has been stepping up to the plate which has been
12 very good.

13 PRESIDING MEMBER GEESMAN: Okay, thank
14 you. Thank you, both.

15 Carol.

16 MS. COY: Good afternoon. Thanks very
17 much for the invitation to participate in the
18 public hearing process on this very important
19 topic.

20 To question number 1 from the
21 Commission, permitting refineries is much unlike
22 permitting turbines or boilers or power plant
23 projects. Refinery permitting is really the most
24 complex permitting that we do.

25 We have vessels operating under high

1 temperatures and pressures with many air toxics
2 involved in very close proximity to a densely
3 populated urban area. The regulations covering
4 these facilities are just incredibly complex.

5 PRESIDING MEMBER GEESMAN: Now, wouldn't
6 you say the same thing about urban power plants?

7 MS. COY: The power plant emissions are
8 much more easily quantified and are much more
9 limited in scope than refinery processes are. We
10 have acutely hazardous materials such as hydrogen
11 fluoride involved in some of the alkylation units.
12 There are, and as I said, under pressurized
13 vessels.

14 So the federal regulations involving
15 these facilities are much more complex than those
16 involving power plants. There are state
17 regulations and state air toxic control measures,
18 as well as very complicated local regulations.

19 And so it's been our long-standing
20 practice at the South Coast District to really
21 meet and coordinate with individuals from the
22 refining and petroleum infrastructure area.

23 At an executive level we have ongoing
24 meetings with WSPA members, as well as CCEEB,
25 which has a large number of large company members

1 from various energy sectors to meet and understand
2 ongoing issues and projections into the future.
3 In addition, our governing board members regularly
4 meet with representatives from these sectors.

5 I think even more importantly to this
6 Commission's inquiry our permitting management
7 regularly meets with the staff from our local
8 refineries, the actual management staff, to look
9 over and review all the current permitting
10 projects that are before us, all of those that we
11 have applications, to help prioritize attention to
12 those applications and to help plan the timelines
13 for pending projects, as well.

14 And as with any program there's always
15 room for improvement; we're always open to
16 suggestions and input. And that's why we're very
17 anxious to work with the Commission on this
18 program.

19 The governing board has, since 1997,
20 authorized the staff, through a formalized program
21 called green carpet program, they've authorized
22 priority permitting activities, which means that
23 one of the types of projects of those that are
24 capital improvements over \$10 million, which many
25 of these projects fall into, that authorizes us to

1 take these projects and give them priority over a
2 first-in/first-out queue. So, since '97 we have
3 that type of impetus from our governing board.

4 I think that it's important to note that
5 we've had very good success in permitting major
6 projects at the refineries. And I think that it's
7 important to note the clean fuels projects that
8 have been accomplished for the phaseout of MTBE,
9 in order to get everyone in to the table and
10 understand the requirements upfront, we actually
11 executed memorandums of understanding with each of
12 the local refineries. And we delivered those
13 permits on time. And they got their construction
14 completed on time.

15 And so everybody knew timeframe-wise
16 what CEQA issues were going to be, what
17 information was required. And it was a
18 partnership between the agency and the project
19 proponents.

20 Going to item number 2, the information
21 that can be provided to expedite the process,
22 there's really no mystery to all of this. The
23 easiest way to get a permit processed and promptly
24 relies on this partnership between the proponents
25 and the agency, itself.

1 Complete project design, adequate enough
2 to allow meaningful review on a permit evaluation
3 basis and under CEQA is really the key thing. We
4 so often have projects before us where it's only
5 initial project design. It's not adequate to
6 determine compliance, expected compliance in
7 issuing a permit. But air agencies cannot permit
8 black boxes. We need enough information there to
9 know what the actual project is going to consist
10 of.

11 What will happen is that if you don't
12 have that, you go into this iterative process that
13 we've heard about earlier this morning, on
14 requesting more information. And often there are
15 design changes which require re-evaluation. And
16 the time that our engineers spend in re-evaluation
17 can much better be spent on evaluating other
18 projects that are before us.

19 PRESIDING MEMBER GEESMAN: Is there some
20 potential modularity among projects? The
21 gentleman from Chevron this morning was suggesting
22 that a lot of projects are identical and
23 interchangeable with each other. Do you agree
24 with that?

25 MS. COY: There is certain equipment

1 that we actually do have various expedited
2 processes on. There are certified pieces of
3 equipment such as various boilers and that type of
4 plug-in equipment.

5 We are anxious to explore other possible
6 types of equipment. With respect to tanks, the
7 tank location and what the actual content of the
8 tank is going to be involves an evaluation because
9 of potential toxics modeling that has to be done.

10 And so what we've been trying to do in
11 these streamlined activities that have been
12 developed over time is to try to parse out those
13 things that can be a so-called cookie-cutter
14 approach. But it has to be things that fit into
15 all parameters.

16 So, I would agree that there are likely
17 to be some other opportunities for that type of
18 streamlining, but in most part, in the complex
19 facilities that we're dealing with under the Title
20 5 program, the federal regulations require, in
21 addition to after the permit review is done, a 30-
22 day public and 45-day EPA review on these permits.

23 What we've been very successful in doing
24 is negotiating with Region IX of EPA to allow
25 concurrent review periods. So if there are

1 substantial public comments during that 30 days,
2 EPA reserves the right to comment further and
3 extend their period. But for the most part
4 they've been very good at coordinating with us to
5 be able to the minute that timeframe runs allow us
6 to go ahead and issue the permit.

7 Title 5 plays a big role in refinery
8 permitting, as I know you're aware of, with power
9 plant permitting. And we have no state
10 authorities that are able to override those title
11 5 permitting timeframes.

12 In addition to these complete
13 applications, there's often one of the biggest
14 delays comes in an actual disagreement between the
15 agency and the permitting proponent over the
16 application of applicable requirements. And so it
17 is really important that these upfront meetings
18 occur.

19 A great example is the Pacific Energy
20 project on Pier 400. They were in two weeks ago.
21 They're months before to give us permit
22 applications, and yet they were in with our
23 executive and permitting staff, giving us an
24 overview of the project plan. They were looking
25 at discussing with staff that their understanding

1 of the rule and regulations that apply to their
2 facility, their proposed facility, is complete.

3 They're already out acquiring the
4 emission reduction credits. It's not going to be
5 a last-minute thing with them. They are there;
6 they're proactive; and they're working together
7 before we even have permit applications in front
8 of us.

9 I would bet that if that management team
10 stays the same they're going to come in with
11 complete applications that are going to allow us
12 to very expeditiously work with them to meet their
13 project construction timeframes.

14 So, just one example. Now, even with,
15 and thirdly, even with the refinery modifications
16 where you've got an active facility to date,
17 they're in operation today and they want to make
18 modifications. We have the greatest success with
19 facilities that come in and regularly meet and
20 review their application progress with us.

21 ExxonMobil, for example, is in on a
22 monthly to bimonthly period with our refinery
23 management team. They look over all the
24 applications that are pending before us, and they
25 let us know what their greatest needs are, and

1 help us shuffle resources to address their needs.

2 All this is very important and helps in the
3 success of permitting.

4 Lastly, you asked about environmental
5 issues and what we can really do. And that kind
6 of goes to the point about my opening comment
7 about these facilities being located in a densely
8 populated urban area. An area that is already
9 greatly impacted by air toxics emissions.

10 There are environmental justice and
11 community issues that are being raised on these
12 projects as part of the CEQA process, and part of
13 commenting process through Title 5, that need to
14 be addressed early and upfront. Both
15 environmental justice and the significant increase
16 in mobile source emissions associated with some of
17 these projects are really a hurdle that we have to
18 work as a team to overcome.

19 Speaking to that, one of the best
20 examples I can think of is in the courts. Most of
21 the issues in the courts, as you're hearing today,
22 revolve around ship emissions, on- and offroad
23 mobile sources and toxic emissions.

24 And in addressing these CEQA permitting
25 issues we need to be looking at offsetting those

1 emissions. So what we really need here is an
2 aggressive action by the state and federal
3 government, the ports, and wherever possible local
4 agencies to create opportunities for additional
5 mobile source emission reductions.

6 And the port infrastructure plays into
7 this, as well. We really need to see some onshore
8 electrification and going to clean fuels on a lot
9 of the port vehicles in order to offset the
10 emissions that are necessary as we expand these
11 other infrastructure projects.

12 The ship emissions, coming in, burning
13 up to 4 and 5 percent sulfur content fuel, when
14 they're coming in and maneuvering and hoteling in
15 California waters here, we need to be looking at
16 15 ppm diesel on these -- I'm sorry, 15 ppm sulfur
17 content in the fuels that they're burning.
18 Because there are just not going to be enough
19 offsets available to, you know, to offset the
20 types of significant increases we see.

21 But, as I say, there's no mystery. We
22 need to be looking upfront. We need to streamline
23 and get things into guidance documents wherever
24 possible, our BACT guidelines. The best available
25 control technology is on our website on different

1 pieces of equipment. And ongoing coordination,
2 absolutely the best thing that can be done.

3 In closing, I think that when you hear
4 people talk about timeframes for permitting, I
5 really think it's critical to recognize that we're
6 running concurrent review with CEQA processes.
7 And in many cases, timeframes that you will hear
8 project proponents talk with you about, include
9 extensive CEQA timeframes.

10 And some, as a matter of fact even with
11 Paramount, where the project proponent,
12 themselves, is negotiating with an environmental
13 group entity as part of the CEQA process, where
14 the environmental group has comments. And that
15 elongates the CEQA process where we have permits
16 that are basically waiting, pending the completion
17 of that very important public process.

18 So, no easy answers, but a lot that we
19 can do to work together. And the agency is very
20 anxious to work with you on gathering suggestions
21 and under Senate Bill 429, to try to put some of
22 these into a document or something that's readily
23 available for project proponents and other
24 agencies to share.

25 Thank you very much.

1 PRESIDING MEMBER GEESMAN: Well, thank
2 you. I certainly appreciate your participation
3 here today. And also the long history of the good
4 working relationship that the Commission and your
5 District enjoy on power plant siting.

6 I wonder what your response was to the
7 suggestion made a couple times this morning that
8 we attempt to search for best practices, and
9 somehow lay those out for implementing
10 jurisdictions? How do you respond to that?

11 MS. COY: Absolutely agree. And I think
12 that that's the underlying premise behind Senator
13 Torlakson's proposal. We think that that's the
14 best thing to come out of the past work that we've
15 done. Wherever we can get guidance down so that
16 there are no surprises and we don't reinvent the
17 wheel time and time again. Very important. We
18 highly endorse that activity.

19 PRESIDING MEMBER GEESMAN: Thank you.

20 DR. TOOKER: I have a followup question.
21 How much time is spent with this same spirit of
22 cooperation in terms of your rulemaking process?
23 Is there much activity in your rulemaking related
24 to petroleum and port infrastructure where the
25 public and the industry come into that process and

1 help craft strategies? Or how does that work?

2 MS. COY: Our rulemaking process is a
3 long one because of very aggressive public input.
4 Especially in the energy sectors. We're dealing
5 with very sophisticated sources. We have numerous
6 public workshops and even small working groups, in
7 developing rules.

8 So all of the public and business
9 interests, industry interest, other agency
10 interests and local governments are at the table
11 throughout the process. And then the staff
12 recommendation is developed and given to the
13 governing board with a lot of interaction with
14 governing board committees, opportunities again
15 for various represented groups to address them;
16 and then a public hearing process where all of the
17 comments are responded to before the board takes
18 an action.

19 So it's a huge interactive process and
20 iterative process in creating the proposed rules.

21 DR. TOOKER: Thank you.

22 PRESIDING MEMBER GEESMAN: Gary.

23 MR. GREGORY: Thank you, Commissioners,
24 it's a pleasure to be here this afternoon. I'm
25 Gary Gregory; I'm the Chief of the Marine

1 Facilities Division of the State Lands Commission.
2 Probably somewhat different role than most of the
3 people sitting at this table. And if you wouldn't
4 mind, I'd like to take a minute or two to tell you
5 what we do.

6 PRESIDING MEMBER GEESMAN: Please.

7 MR. GREGORY: We are a regulatory
8 agency; in fact we were created under the Lempert
9 Keene Seastrand Oil Spill Prevention and Response
10 Act of 1990, to protect the public health and
11 safety and the environment.

12 We have particular statutory mandates
13 which include responsibility to inspect all marine
14 facilities; to monitor marine facilities
15 operations and their impacts on the environment
16 and the people around them; we have responsibility
17 to adopt rules, regulations, guidelines and
18 procedures for all marine terminal operations.
19 And we have review and approval processes for
20 operations manuals for all marine facilities.

21 So those are very specific mandates
22 within the law, and we have created regulations to
23 implement most of those requirements; in fact, all
24 of those requirements.

25 The Marine Facilities Division we put

1 together about 13 years ago; tried very hard to
2 use maritime oil transfer professionals, people
3 that have a lot of experience. I'm one of the
4 kids on the block when it comes to that; I've been
5 doing this about 25 years. On average we have
6 more than 20 years of experience, all the way from
7 our inspectors up to our specialists.

8 We try very hard to be a customer-based
9 organization using total quality management
10 issues. We work closely with our customers, being
11 everybody from the people of the State of
12 California to our Commissioners, to the industry
13 that we, in fact, work with and regulate on a
14 regular basis.

15 Having said that, it's really gratifying
16 to be here today with a recognition finally of the
17 importance of marine oil terminals and this whole
18 system. We have been preaching for years the
19 looking at a system, tankships, facilities,
20 refineries. And we have found that over the years
21 these marine oil terminals have been left largely
22 to decay, crumble.

23 We have an aging infrastructure; we have
24 a geriatric infrastructure. Marine oil terminals
25 in the State of California are, on average, over

1 50 years old. The Ports of Los Angeles and Long
2 Beach represent facilities that were built in the
3 '20s and '30s.

4 We had an incident in one just recently
5 in which a ship which failed to tend its lines
6 properly pulled the cleats and bollards right out
7 of the deck of the facility. These facilities
8 were designed in the '20s and '30s, again some
9 were rebuilt in the '50s. Ships in those era were
10 10-, 15-, 20-, 25-thousand dead weight tons. Now
11 we have 90,000, 110,000, 180,000 dead weight ton
12 vessels tying up to some of these facilities. We
13 have a real problem there.

14 There are regional differences, too,
15 which are interesting. Northern and southern
16 California are very different in terms of how they
17 work. Within southern California the bulk of the
18 24 or so marine oil terminals are within the Ports
19 of Los Angeles and Long Beach. They are leased
20 facilities from the ports by operators.

21 The responsibility for maintenance of
22 the facility is split and each of the leases is,
23 in fact, somewhat different. We have a little
24 problem with determining who's responsible for
25 what on occasion.

1 As opposed to northern California where
2 we have fewer terminals; larger terminals; almost
3 all owned and operated by majors who feed their
4 refineries through these. And they are on lands
5 that are leased from the State Lands Commission.

6 So there's a wide variety of how we look
7 at these; how we can deal with people in terms of
8 the physical structures of those facilities. It's
9 very interesting.

10 But it is nice to see that somebody is
11 recognizing that these are important business
12 assets for the companies, and they are important
13 assets for the people of the State of California.
14 We have not really seen that all the time.

15 We deal with the marine oil terminals on
16 a daily basis. We have people in the field,
17 inspectors in the field every day. We look at
18 marine transfer operations every day. We inspect
19 facilities, a very deep physical inspection once a
20 year. We have semi-annual walk-throughs to make
21 sure there are not major things changing on these
22 facilities over time.

23 We work very closely with the industry
24 in doing that, and we work closely with the other
25 bodies there, the cities, the counties, and

1 occasionally environmental representatives who are
2 interested in looking at these issues, too.

3 It is interesting to note, also, that
4 over the last 13 years we've seen a steady
5 decrease in the number of oil transfer operations
6 at these marine oil terminals. And we've seen a
7 steady increase in the volume of material that is
8 transferred. So we're seeing larger ships; we're
9 seeing fewer transfers; and with an aging
10 infrastructure we have concerns over bringing
11 larger and larger ships into older and older
12 facilities.

13 We have dealt with Pacific Energy
14 Partners -- dealt is the wrong word -- we've
15 worked cooperatively. They have been wonderful.
16 We have worked with them looking at our
17 regulations as they exist today, and looking at
18 some future regulations that I'll mention in just
19 a moment.

20 We work very hard to work closely with
21 our industry community. We work very hard to
22 solve problems with them. And we think we do
23 that; and we think that they come to us most of
24 the time indicating where they see problems and
25 how we can solve these problems together.

1 And Pacific Energy Partners is a prime
2 example of how getting together early on, setting
3 the stage, painting the scenarios of where we all
4 want to go with these things really helps
5 tremendously. And I would just say that working
6 together cooperatively means getting together
7 cooperatively and working with trust and solving
8 issues together.

9 We have one major significant program
10 that's going on right now that will impact the
11 marine oil terminals in the State of California,
12 and we've been calling it MOTEMS, the Marine Oil
13 Terminal Engineering and Maintenance Standards.

14 These standards are going through the
15 Building Standards Commission right now, through
16 the public process. We will, in fact, in the
17 month of July be having public hearings on these.
18 And they will provide comprehensive engineering
19 and maintenance standards for marine oil
20 terminals, both new and existing.

21 They will require for existing terminals
22 a very close audit of the engineering of the
23 facilities to insure that they're fit for purpose;
24 to insure that they're large enough and strong
25 enough to handle the ships that are tying up next

1 to them. For new facilities it will be all the
2 way back at designing and construction.

3 Again, Pacific Energy Partners are on
4 board with this completely and working toward
5 making sure that they have a, you know, a great,
6 strong structure.

7 No such standards exist anywhere in the
8 world today. This will be the first standard of
9 its type. We will be moving forward with it. It
10 is referenced, even though it's not adopted as a
11 regulation in the State of California yet, it has
12 been adopted and referenced in the 2003 NEHRP
13 document, the National Earthquake Hazard
14 Remediation Program, and internationally, PAHG,
15 the Port and Harbor Group, has recognized MOTEMS
16 as the proper standard for design, construction,
17 maintenance and engineering issues at marine oil
18 terminals.

19 It's going to be very interesting and
20 we're looking forward to working with the industry
21 on that. We worked very closely with the industry
22 in putting those regulations together.

23 Just in closing, we work very close with
24 the industry; we try very hard to be partners in
25 terms of creating a safe and pollution-free

1 environment out there. We're gratified with
2 what's happened so far with our regulated
3 community. And again, I'm very gratified to see
4 the Energy Commission's concerns about our
5 facilities. Thank you very much.

6 PRESIDING MEMBER GEESMAN: If the
7 Governor called you in and said, I'm new here, but
8 I'm very concerned that our marine facilities are
9 not adequate to meet our future needs, what should
10 state government do, what would you tell him?

11 MR. GREGORY: I would say that probably
12 the picture may not be as dire as it looks. We
13 have major significant facilities that are in good
14 condition, that can probably cover 65 to 70
15 percent of our need.

16 The rest of that need and the new need
17 needs to be looked at very carefully to make sure
18 that we are working with industry and industry is
19 creating the proper facilities.

20 I don't believe we can add much more
21 capacity with existing facilities without
22 significant upgrades on those facilities as it
23 exists today.

24 Pacific Energy Partners is going to be a
25 significant increase in terms of safety, in terms

1 of volumes of material passed, in terms of the
2 size of vessels coming in and the new challenges
3 meeting us in terms of those sorts of operations.

4 But we need to be looking to the
5 industry to work together to solve these problems.

6 PRESIDING MEMBER GEESMAN: Are we
7 sending the right signals to the industry in order
8 to induce the additional investment in new
9 capacity?

10 MR. GREGORY: I'm not sure I'm qualified
11 to answer that sort of question. We're kind of
12 one-the-ground, safety people looking at the total
13 quality management and, you know, quality issues
14 there at the terminals.

15 There are a lot of good people out
16 there. There are a lot of good capable
17 facilities, people that know how to make things
18 happen. We need to get those people together; we
19 need to get the majors and the independents
20 working on those things together.

21 PRESIDING MEMBER GEESMAN: Thank you.

22 DR. TOOKER: I have one followup
23 question. What authority does the State Lands
24 Commission have to be able to address issues
25 related to the condition of existing

1 infrastructure?

2 If you find a problem with these things
3 being improperly used or falling apart, what
4 authority to you have to get them fixed?

5 MR. GREGORY: Well, there are a number
6 of different ways we can face it. These
7 operations manuals that I mentioned are documents
8 that tell how a facility will operate, it's good
9 business practices and operate in accordance with
10 the regulations or requirements. If there are
11 deviations from that, we can look at it that way.

12 Frankly, in terms of aging facilities
13 right now, where we see engineering and structural
14 problems, all we can do is talk to the facility
15 operators or talk to the facility owner; get our
16 engineers together with them; start pointing out
17 some of the issues and hopefully our bully pulpit
18 is our prime means for getting them activated and
19 working on these problems.

20 DR. TOOKER: Thank you.

21 ASSOCIATE MEMBER BOYD: Gary, just
22 taking advantage of your being here. Does OSPR
23 have any role internally, as such, or are they
24 just with the carriers and what-have-you?

25 MR. GREGORY: They are involved with the

1 vessels and the carriers. Not with the terminals,
2 themselves.

3 ASSOCIATE MEMBER BOYD: Thanks.

4 PRESIDING MEMBER GEESMAN: Steve.

5 MR. HILL: Thank you. My name is Steve
6 Hill; I'm the manager of permit evaluation for the
7 Bay Area Air Quality Management District. And I
8 appreciate the opportunity to speak with you this
9 afternoon.

10 The District supports the best practices
11 review that SB-429 is requiring and that you have
12 also begun engagement with. We feel that all the
13 permitting agencies can learn from the ideas that
14 have been tried out in other jurisdiction. Those
15 that work are educational; those that haven't
16 worked are also educational and well worth
17 discussing. So worst modern practices might also
18 be something that you explore when you're
19 preparing those reviews.

20 Before I answer the three questions that
21 you specifically asked us to answer, I wanted to
22 speak to a couple of things that were said this
23 morning. First of all, to the extent that your
24 work here is triggered by the price spikes and
25 this issue of the price differentiation, it might

1 be educational for the Commission to take a look
2 at the price differential in gasoline between the
3 Bay Area and south coast.

4 Considering the fact that gasoline is
5 shipped from the Bay Area to the south coast and
6 that that market, the south coast market, the
7 retail price is actually 10 to 20 cents per gallon
8 lower than it is in the north bay, there is
9 something going on there that doesn't really feel
10 like a free market. That might be educational in
11 a broader sense, as well. So I would strongly
12 encourage you to take a look at that issue.

13 The second point, notwithstanding the
14 fact that all of the agencies can improve their
15 permitting process, streamline, cut corners -- or
16 not cut corners, but cut time to make things go
17 more quickly, the Bay Area District and the other
18 Air Districts are under the California Permit
19 Streamlining Act. And 95-plus percent of our
20 permits are issued within 60 days of completeness.
21 That's true for refinery permits as well.

22 One of the -- there are some permits
23 that are certainly excluded from that, those that
24 trigger CEQA are among them. The specific example
25 that was brought up this morning about the Bay

1 Area, the Bay Area ethanol tank, I wanted to speak
2 to that, because I called back to get some
3 information about that. The application was
4 submitted in September of 2001. Ten days later
5 the engineer had reviewed that application and
6 sent to the facility a letter indicating where it
7 was incomplete, what was needed to complete that
8 application. It was ten days after receipt.

9 This was so crucial to the refinery that
10 six months later -- it wasn't a refinery, it was a
11 terminal -- six months later they submitted the
12 information they needed to complete that
13 application.

14 Now, that's, you know, really sort of an
15 unfair description, because this was also subject
16 to, as Carol described, the parallel CEQA process,
17 which was also ongoing. It wasn't critical that
18 the facility submit that information, because the
19 CEQA process was running and that was taking a lot
20 longer.

21 We issued that permit within ten days of
22 certification of the EIR. And so, if you look at
23 the actual delays, we had a ten-day cycle to
24 determine whether the application was complete; we
25 had the review period, and I can't tell you how

1 long that took, but it took place within the CEQA
2 period; and then ten days after the CEQA process
3 was complete our permit was issued.

4 I just wanted to bring that to your
5 attention in terms of assessing how the agencies
6 respond to these permit applications.

7 Going back to --

8 PRESIDING MEMBER GEESMAN: Steve, let me
9 ask you, because I think it's probably something
10 that any number of people in the audience would
11 ask, do you think the existing CEQA thresholds are
12 well calibrated to our current needs?

13 MR. HILL: The CEQA thresholds are
14 subjective to an extent. There's a decision that
15 the lead agency must make as to whether or not
16 that permit has potential significant impact. And
17 I can't think of a way of characterizing that that
18 would be any less general and still cover the
19 broad range of projects that must be undertaken.

20 Whether that judgment is being applied,
21 I think that's an agency-by-agency determination.
22 It is something that certainly could be looked at.

23 One of the suggestions that was made was
24 looking at the agency's ability to make
25 ministerial decisions or determining the decision

1 was ministerial. That is certainly a place where
2 we can look.

3 Also, going back to CEQA and looking at
4 definitions of exempt projects also is a place
5 that we can examine.

6 My experience has been that examining
7 these projects tends to refine the focus and to
8 reduce the emissions associated with them. And
9 that's a valuable outcome of the process. Whether
10 it's worth the time that we spend to do it, I
11 can't say.

12 PRESIDING MEMBER GEESMAN: Well, I think
13 you probably would agree that it should be focused
14 where it may have the largest potential effect.

15 MR. HILL: I would certainly agree on
16 that. But one point that was made earlier was
17 that a tank is a tank is a tank; and that is not
18 true. As Carol said, a tank is not a tank is not
19 a tank. What it contains matters significantly.
20 Where it is located is also crucial. What that
21 community is experiencing and has experienced in
22 the past.

23 The compliance history of the facility.
24 One of the things that we have found is that when
25 we ask questions we learn things about the

1 application that weren't contained in the original
2 application. And sometimes those are plans that
3 the facility has for flexibility, for future use
4 of this equipment that we didn't know about, they
5 didn't tell us about in their initial application.
6 We have to ask to get that information.

7 Over the years we have enough experience
8 to know that we're not being told the full story
9 when we receive the initial application. We have
10 to ask more questions.

11 PRESIDING MEMBER GEESMAN: And I guess
12 my question would be are you assured that the
13 process is yielding the best possible result at
14 the end of it?

15 MR. HILL: Well, it's a bureaucratic
16 process; I think the answer is it's guaranteed not
17 to. There's going to be inefficiencies. What we
18 want to do, I hope what this Commission, I hope
19 will do, is focus on those areas where we can
20 maximize the return to the public and minimize the
21 loss of stringency or the loss of review or the
22 loss of the participation. We really can't afford
23 to reduce any of those things.

24 PRESIDING MEMBER GEESMAN: I certainly
25 agree with that, but I think the public is quite

1 appropriately focused on outcome. We all tend to
2 be focused on process, but I think that we
3 shouldn't lose sight of the fact that the public's
4 primary expectation of us is does the process
5 yield a good result. And I think that in
6 government too often we substitute process for
7 outcome.

8 MR. HILL: I'm not sure I would agree
9 with that statement. I think that the concept of
10 due process is constitutional. And due process is
11 how the public is guaranteed that the outcome is
12 appropriate. That there is a process the public
13 participates in; that they get to see the workings
14 of the agency; they get to examine those
15 decisionmaking processes.

16 And so making sure that we follow the
17 process appropriately is the guarantee that the
18 public has the outcome as appropriate.

19 PRESIDING MEMBER GEESMAN: I don't
20 disagree with that for a minute, but I do still
21 remember the very first lecture Professor Choper
22 gave in constitutional law. He said, gentlemen
23 and ladies, not every case is a constitutional
24 case. And I think we shouldn't lose sight of
25 that.

1 MR. HILL: I would tend to agree with
2 you. What I guess I'm saying is that we need, if
3 we're going to eliminate process steps, and it's
4 appropriate in some cases to do so, we must be
5 sure that all cases that go in where those steps
6 are eliminated, those steps are unnecessary.

7 PRESIDING MEMBER GEESMAN: Fair enough.

8 MR. HILL: Let me speak quickly to the
9 three questions that you posed. First of all,
10 what efforts are currently in place to coordinate
11 infrastructure planning with industry. Unlike
12 South Coast, the Bay Area's response to that is
13 that we are more of a reactive evaluative process.
14 We react and respond to projects that are brought
15 to us. We don't bring the refineries in
16 periodically to say, what do you got in mind.

17 We encourage them to come in, but we
18 don't bring them in. We do encourage them to come
19 in to preapplication meetings. We also try to
20 discuss the process. We meet regularly with WSPA
21 to discuss those kinds of things. But in terms of
22 their overall plans or individual plans as
23 refineries, we don't do that unless they bring
24 them to us.

25 Second question, what information should

1 the industry and other agencies provide that would
2 help us plan. As Carol said, the earlier we can
3 be involved, the sooner we can lay out what our
4 requirements are, the sooner we can discuss how
5 those requirements apply to a particular project
6 for application, the better we can inform the
7 applicant as to what they can expect from the
8 process. So early involvement with us is
9 essential.

10 What environmental issues do you believe
11 petroleum infrastructure expansion present? I've
12 identified three. The first one is environmental
13 justice; the second one is environmental justice;
14 and the third one you can guess, is environmental
15 justice.

16 It's critical, as again Carol said
17 earlier, an many people have said this, that
18 engaging the community early, letting them know
19 what to expect, allowing them to ask questions,
20 giving them a sense of what they can expect is
21 critical.

22 If the facilities do not engage the
23 community early, they will engage them later. And
24 in much more adversarial circumstances. And so I
25 strongly recommend early involvement with the

1 community. I'm expecting that that will pay off.

2 PRESIDING MEMBER GEESMAN: Thank you.

3 Morty.

4 MR. PRISAMENT: Good afternoon.

5 Pleasure for me to have an opportunity to address
6 the Commission.

7 I might want to begin with addressing
8 the question that you posed regarding CEQA and the
9 ethanol facilities where you were referring to
10 Chevron ethanol.

11 I manage the CEQA process in the City of
12 Richmond and I was managing that process, as well,
13 and actually from two different standpoints. One
14 as the chair of the environmental assessment
15 panel, and then in my other role as the CEQA
16 manager. So I could actually offer some
17 enlightening comments, I think, on this process.

18 I wouldn't say the question is between
19 exempting the CEQA process or finding an exemption
20 for review of a project like that, or doing a
21 negative declaration or mitigate a negative
22 declaration process which is the lower on the CEQA
23 hierarchy, just after an exemption.

24 The real question in that case was
25 whether you would do an MND or an EIR. And the

1 issues in that whole controversy which -- the
2 central issues involved, but the cumulative
3 issues, the cumulative impact issues.

4 So, again, I think that any notion, even
5 from the standpoint of the oil industry, I mean of
6 exempting a project like that, that's just not
7 even a question on the table. It's more in that
8 particular case, and other such cases, is it
9 appropriate to do the lower level mitigated
10 negative declaration where you don't look at
11 cumulative issues and you don't look more
12 extensively at the potential significant
13 environmental issues. Or would you move toward
14 the EIR.

15 And, you know, CEQA dictates through the
16 case law vis-a-vis the fair argument test that
17 there's a fairly low threshold before you need to
18 look at a significant impact via an EIR.

19 Now, the City of Richmond took the
20 position that it didn't meet that low threshold,
21 because while it was conceivable that you could
22 have some significant impacts, we couldn't see in
23 the record, the facts didn't bear out that you'd
24 actually have the significant level of impacts
25 connected to or associated with any particular

1 issues that were raised in the appeals. We had
2 administrative appeals through the process in the
3 City. So, conceivably that could have turned out
4 differently and with a different set of
5 circumstances.

6 Now, one of the other issues that came
7 up there that I think is relevant to some of the
8 other issues discussed here is that we're dealing
9 with ethanol tanks at the terminal, the marine
10 terminal. And there was a point made through the
11 process that, well, you need to look at the
12 refinery and the terminal together and see where
13 the interconnections are.

14 And so Chevron contended that no, we're
15 just looking at the terminal. And I can
16 understand that because their entire operations
17 are oriented that way. They have different people
18 dedicated to the terminal operations. It's
19 completely distinct from the refinery.

20 So, there are different perspectives
21 that underlie some of these issues, and how
22 different people can naturally come to different
23 opinions about them.

24 We had a proceeding case involving what
25 was called the LPG spheres. And that actually

1 went to court. But the similar issues were raised
2 about the cumulative impacts and issues. , I just
3 wanted to provide some clarification about that.

4 And I also concur that having some best
5 practices guidelines is good for a baseline, and
6 that any guidance that the Energy Commission could
7 provide in that regard as far as the statewide
8 coordinating role would be appreciated and
9 certainly helpful.

10 PRESIDING MEMBER GEESMAN: Let's focus
11 on the ethanol tank for just a moment longer. How
12 did the project change during the course of your
13 review? Did the project that you ultimately
14 approved, was it the same as the one that was
15 applied for?

16 MR. PRISAMENT: Yes, it was essentially
17 the same.

18 PRESIDING MEMBER GEESMAN: And what
19 mitigation measures did you impose?

20 MR. PRISAMENT: Mainly related to, I
21 recall, I think some stormwater issues and your
22 water quality, hazardous monitoring. They weren't
23 very extensive measures. But we tried to cover
24 everything that was related to, you know, to any
25 of the issues that were raised.

1 PRESIDING MEMBER GEESMAN: So,
2 recognizing that the resources that society has
3 available to conduct these environmental reviews
4 are limited, and that I think logically they
5 should be focused where they can have the greatest
6 impact. Was that time well spent on that project?
7 Or was the shorter more streamlined review that
8 Chevron apparently received in other jurisdictions
9 for other tanks a more appropriate approach?

10 MR. PRISAMENT: The best way to answer
11 that is partially answer the question number 2.

12 PRESIDING MEMBER GEESMAN: Okay.

13 MR. PRISAMENT: But which -- and I might
14 as well do that now. And what we had discussed
15 with Chevron, we sat down with them somewhat like
16 a post mortem, after this experience, and said you
17 know, the next project you do of any real
18 significance, you know, prior to that or along
19 with that let's get together and develop a master
20 plan of all your anticipated future projects, so
21 that we could examine the nature of those
22 projects, the interrelationships between your
23 different projects that are going on at the
24 refinery and the terminal.

25 And in that way we could move forward

1 with a program level environmental impact report.
2 That will enable both the city and the refinery to
3 look at those longer term issues and the
4 cumulative issues that are raised, and to actually
5 expedite the overall process, because then it's
6 possible to more easily do a negative declaration;
7 and even in some cases, an exemption.

8 People have a document; they can see
9 where -- how A relates to C and et cetera, and
10 what really they're looking at in the long run.
11 Because there are a lot of technical questions
12 that were raised regarding the reformulated fuels
13 project. The first, the initial effort that was
14 undertaken. And then the subsequent efforts
15 related to subsequent legislation.

16 And it gets very complicated. And
17 looking at trying to draw a line between what's,
18 is this ethanol project really related to
19 something bigger. I mean that was the main
20 question. And in addition to some site-specific
21 technical questions.

22 So that's, I think, the overall, you
23 know, recommendation. And we're now discussing
24 with Chevron some projects that they're
25 anticipating in the future, and actually moving

1 forward with something like a master plan and that
2 program level review.

3 Another thing, just before responding to
4 other questions, I want to mention regarding State
5 Lands Commission. I think there's been a vast
6 improvement just looking at, for example, more in
7 the area of southern and central California,
8 particularly around Santa Barbara coastline.
9 Years ago it had a proliferation of marine
10 terminals and a host of problems and issues
11 related to water quality and air quality.

12 And working together with different
13 state and federal agencies and the industry,
14 through joint review panels and other mechanisms,
15 came together with a plan for the Los Flores
16 Canyon facility, which resulted in some definite
17 long-term environmental benefits.

18 So, I think there's examples out there
19 to address big projects like refineries and
20 refinery modifications. And, you know, they can
21 certainly benefit from joint review panels where
22 you, you know, on those types of projects.

23 Number 1, I already commented about we
24 have heretofore primarily relied upon ad hoc
25 meetings with Chevron and other companies in

1 Richmond. I've only been in Richmond for two
2 years. But that's been my experience so far. And
3 just until late where we're discussing the longer
4 term planning possibilities.

5 What kind of information would be
6 helpful? Again, information through the mechanism
7 of a long-range planning process, master plan.
8 We're also updating our general plan, which I
9 think is -- there's a void of information
10 contained there concerning some of our largest
11 facilities in Richmond, including the refinery,
12 but not only the refinery.

13 And hopefully that's also a mechanism
14 through which we can address some of these issues.
15 Also there's long-range -- there's large projects
16 being proposed in Richmond, some adjacent to the
17 Chevron refinery, like the redevelopment of Point
18 Molate, former Naval fuel depot. A lot of issues
19 related to that that have to be taken into
20 consideration with the long-term plans of the
21 refinery.

22 Regarding the environmental issues, I
23 think other people have alluded to the various
24 issues that you're going to be dealing with. I
25 would also say that the environmental justice

1 issue has been a recurring issue, a recurring
2 theme in Richmond.

3 And in Richmond, I don't know if it's
4 more significant than in areas such as in Long
5 Beach, but there's a very long legacy of
6 industrial activity and contaminants. A large
7 area of the Richmond shoreline is contaminated.
8 And almost every development needs to contend with
9 the contamination and hazardous remediation issues
10 in Richmond.

11 Richmond is experiencing a developing
12 boom currently, and unlike a lot of other areas.
13 So we're needing to balance a lot of the land use
14 needs, resulting in a lot of land use conflicts
15 between continued industrial development or
16 residential development, particularly along the
17 Richmond shoreline.

18 So those are the main comments that I
19 have. If you have any questions I'd be happy to
20 answer them.

21 PRESIDING MEMBER GEESMAN: How do you
22 see those development conflicts being addressed in
23 a way that statewide considerations are taken into
24 account?

25 MR. PRISAMENT: Well, frankly I don't

1 think that -- I think we're going to miss a lot of
2 opportunities, really. I think that there's a
3 good opportunity to actually form some sort of
4 coordinating panel or joint panel with agencies
5 like State Lands Commission, the Energy
6 Commission, the BCDC, Regional Water, DTSC, et
7 cetera.

8 It doesn't make sense for industry to
9 have to hop around to all these agencies with
10 overlapping jurisdiction. I've dealt with issues
11 as far back as the disposal of drilling muds
12 issue, and that crossed so many boundaries and
13 jurisdictions, jurisdictional boundaries, that it
14 would, you know, should make the industry quite
15 dizzy dealing with all that. And also, it's very
16 confusing for the public to follow.

17 So, I think it really needs to be dealt
18 with in a more coordinated fashion.

19 PRESIDING MEMBER GEESMAN: The city has
20 faced some fairly severe budget challenges of
21 late. Does that impact your ability to process
22 permit applications in a timely way?

23 MR. PRISAMENT: Really not at all.
24 While the rest of the city, the workforce has been
25 reduced by a third, in planning we've been

1 basically immune to any budget reductions.

2 We developed a cost recovery system
3 recently, and so when we have a project proposed,
4 we just also updated our outside consultants list,
5 our outside legal counsel list, so that we can
6 just pass along the cost to the project proponent.
7 And we are able to move forward expeditiously with
8 any kind of proposal as a result.

9 PRESIDING MEMBER GEESMAN: Thank you.

10 MR. PRISAMENT: Thank you.

11 PRESIDING MEMBER GEESMAN: Kitty.

12 MS. HAMMER: Thank you. I want to agree
13 wholeheartedly with Carol's comment that there are
14 no easy answers to this question of expediting the
15 permit process, but there is a lot that can be
16 done.

17 You can't completely avoid this
18 sequential process that we're talking about, but
19 there's a great deal that can be done in terms of
20 coordination with other agencies, coordination
21 with the public.

22 I think this morning Mr. Ferrari said
23 that in beginning their project they began to meet
24 early on not only with all of the involved
25 agencies, but with members of the public. And

1 that this produces the best result in the end.
2 That you will find that your process goes much
3 more smoothly if you get all of the issues out as
4 early as possible. Find out all the information
5 that the applicant needs to provide to the
6 agencies as early as possible. And I know I'm
7 reiterating what other people have said.

8 I wanted to mention a couple of things
9 that have been done in Benecia that I think have
10 worked well along this line. One was the process
11 that the refinery went through with the recent
12 Valero improvement project that received its use
13 permit last year.

14 The refinery, instead of coming to the
15 city on a piecemeal basis with projects that it
16 needed when it needed them, took a look ahead and
17 said here are all of the things that we think we
18 might possibly want to do between now and the end
19 of 2009. We've bundling them all into one permit
20 application and we're bringing them to you for a
21 use permit and environmental review.

22 That process worked exceedingly well, I
23 think, for both the city and the refinery, in that
24 we did one environmental review, one permit
25 process. The refinery now has the knowledge of

1 what it can do between now and the end of 2009
2 simply by bringing in building permit applications
3 for those specific elements of their project that
4 might need a building permit application. For the
5 other elements of it they can simply go ahead and
6 build. And they tell us at the end of the year
7 what's been done in terms of their work on the VIP
8 for that year.

9 The refinery has also worked closely
10 with the city, and this is something that grew out
11 of Valero's purchase of the refinery from Exxon
12 several years ago. There was some concern in the
13 city when the refinery was for sale. Nobody knew
14 who the buyer would be or whether they would be as
15 good a corporate citizen as Exxon had been.

16 So there was a good neighbor agreement
17 developed between the city council and the
18 refinery when Valero came in. And part of --
19 well, there were a lot of provisions in that good
20 neighbor agreement for how the two entities were
21 going to work together and cooperate.

22 But part of the provisions in that
23 agreement called for the creation of a community
24 advisory panel. And this is a panel which is
25 staffed and managed by the refinery; and it

1 consists of representatives from the city council
2 and from the community-at-large.

3 And they meet on a regular basis and are
4 updated by the refinery on what is going on at the
5 refinery; and what is projected to come up; and
6 any current issues that may be going on. There's
7 an opportunity for give-and-take there. It keeps
8 the community informed. It keeps the refinery
9 updated on what the community's concerns are.

10 And it worked very well through the VIP
11 process to help inform the community about that.
12 And it seems to be working well on an ongoing
13 basis.

14 There have been a number of incidents
15 occurring at the refinery recently which have
16 aroused some concerns in the community. And the
17 citizens advisory panel has been instrumental in
18 working through that issue, as well.

19 So we think that there is a lot to be
20 said for involving the public not only early on in
21 permit processes, but as time goes along, so that
22 they feel that they know what's going on at the
23 refinery and there's some understanding of what
24 the issues are. And a certain comfort level there
25 can be established.

1 PRESIDING MEMBER GEESMAN: If I can
2 interrupt you, --

3 MS. HAMMER: Sure.

4 PRESIDING MEMBER GEESMAN: -- was there
5 hesitancy on the part of the city to grant Valero
6 a conditional use permit for projects going out as
7 far as 2009? How did that initially strike the
8 city?

9 MS. HAMMER: The initial reaction was, I
10 guess I would say the staff's initial reaction was
11 good. And the elected officials were a little
12 concerned about the length of time involved, and
13 whether it was possible to do an effective
14 environmental review that would really consider
15 all of the issues for projects that far into the
16 future.

17 And we certainly had -- we had that
18 concern raised throughout the environmental
19 process. But I think we dealt with it quite well.
20 It was not easy to put together an environmental
21 review that covered all of those projects,
22 especially since some of them hadn't been
23 engineered yet. And, you know, there was some
24 uncertainty as to which ones would be built.

25 The refinery made it very clear that

1 they wanted to be able to build what they wanted
2 to when they wanted to, and not necessarily build
3 everything that was on the list.

4 But we were able to put together a
5 credible environmental review that essentially
6 looked at the worst case. What if they did, you
7 know, this combination of projects that produced
8 the very worst environmental impact that it could.
9 We looked at that; concluded what the impacts
10 would be; and were able to mitigate them. And
11 that really ended up resolving the issue.

12 PRESIDING MEMBER GEESMAN: And how did
13 your public respond to that type of application?

14 MS. HAMMER: They had the same concerns
15 that the elected officials did. And, as I said,
16 through the environmental process we continue to
17 hear these concerns. And we ultimately felt that
18 we had done a very credible and defensible
19 environmental review. And ultimately it was
20 deemed to be satisfactory.

21 I might mention that the use permit was
22 granted at the planning commission level, as with
23 another project we talked about this morning, it
24 was appealed to the city council. But that appeal
25 was settled before it actually got to the council

1 and it was partly because or was entirely because
2 the appellants, who were members of the public,
3 were satisfied that the project was going to be
4 acceptable to them.

5 PRESIDING MEMBER GEESMAN: Thank you.

6 DR. TOOKER: One followup question. In
7 that MOU relationship did you identify and
8 implement any kind of permit strategies where you
9 allowed, as I think Contra Costa County does, for
10 certain improvements to occur within the refinery
11 up to a certain financial cap without a permit
12 review requirement?

13 MS. HAMMER: Actually, these kinds of
14 provisions predated that MOU. The city has a
15 section in the zoning ordinance that requires a
16 use permit for refineries and for changes at
17 refineries. But there is a threshold below which
18 permits are not required.

19 So a project that is going to cost 25
20 million or more, adjusted for inflation, or a
21 project that is going to represent a quote-unquote
22 substantial change in the refinery or its
23 operations is subject to use permit. Other
24 projects at the refinery can simply go ahead with
25 the building permit if it should be needed.

1 The city has also, for many years, had
2 an arrangement with the refinery which is called
3 the annual building and grading permit. Whereby
4 for projects that fall below an established
5 threshold the refinery is able to go ahead and do
6 the building or the grading and report to the city
7 and pay their fees at the end of the year.

8 And for projects above that level or
9 deemed to be of enough concern then they have to
10 come in for separate building permits.

11 DR. TOOKER: Thank you.

12 MS. HAMMER: Let's see, there's been
13 some talk about state versus local approach to the
14 permit process as part of all of this. And I
15 think Commissioner Geesman made the comment this
16 morning that the people at the local level often
17 don't appreciate the regional and statewide
18 issues. And there's concern that the local
19 processes don't take that enough into account.

20 And that may well be true. There's
21 certainly a focus on, you know, on the local
22 problems. But it is also very important that the
23 local issues be identified and dealt with
24 effectively. And I'm not sure that that can
25 effectively be done at the state level.

1 Having participated in the Energy
2 Commission's siting process a number of times, I
3 know that it is a difficult process for both local
4 agencies and members of the public to participate
5 in. It's time consuming; it's difficult to learn;
6 and it's expensive.

7 The staff here is excellent, and they do
8 address issues if you can bring them to your
9 attention. But it's not easy and it does not
10 necessarily get to the depth on local issues that
11 a local permit process does.

12 I would like to bring up an example,
13 which is not an Energy Commission example, it's
14 the Kinder-Morgan pipeline project that recently
15 was approved and is now under construction. That
16 project passes through Benecia. And as it
17 happens, it parallels a city waterline for about
18 six miles. It is actually co-located with the 36-
19 inch waterline which carries the city's entire
20 water supply. This is the raw water line for the
21 City of Benecia.

22 And that was a major concern to the
23 city, which really didn't get fully addressed
24 until the draft environmental impact report came
25 out. And we realized that it hadn't been -- you

1 know, had been considered as just another
2 waterline, and not as vital a city supply, which
3 could impact health and safety and even bring down
4 the refinery under certain circumstances.

5 So, that's just an example of why it is
6 so important to have the local issues adequately
7 handled.

8 I think that I've pretty much covered
9 what I wanted to talk about except to say that
10 it's very gratifying to hear that the Commission
11 is moving forward on issues to promote
12 conservation and the development of alternative
13 fuels. And it's really important for you to
14 continue to do that, I think; and to do a lot
15 more. It's the coming thing. And we're glad to
16 see you working in that direction.

17 PRESIDING MEMBER GEESMAN: Thank you.
18 Jim.

19 MR. HANSEN: Good afternoon, and thank
20 you for this opportunity. My first to appear
21 before you. I work for the City of El Segundo and
22 I can't let this opportunity go by without making
23 a comment on Richmond.

24 Many people probably are unaware how El
25 Segundo got its name. Why would you call a city

1 The Second. And many of you may know, but
2 actually once then-Standard Oil launched their
3 initial refinery in Richmond they wandered down to
4 southern California and picked the site they did
5 near LAX today. And called it The Second.

6 I believe the refinery manager's wife
7 decided to call it El Segundo, and so there it
8 was.

9 (Laughter.)

10 MR. HANSEN: What other city in the U.S.
11 is called The Second? So. But, again, thank you.

12 I wanted to just really concentrate or
13 focus on one area, because I know you've heard a
14 lot of remarks and wonderful testimony today.

15 And that has to do with Chevron's sort
16 of the model in my experience over the years of
17 public relations. This refinery is 1000 acres.
18 It's huge. It sits between, of course, El Segundo
19 on the north, Manhattan Beach on the south, and to
20 the immediate east the City of Hawthorne in a
21 county with 9.5 million people.

22 From the very start I think the refinery
23 recognized the importance of public relations.
24 And like I said, we have many many Fortune 500
25 companies in our town; we're blessed to have that.

1 But I'd have to say Chevron, above all, really is
2 the best at public relations.

3 And what I mean is that they are
4 constantly redeveloping facilities at the
5 refinery. Now, unlike some of the other examples,
6 they aren't building any major new facilities or
7 marine facilities. However, on a regular basis
8 they spend millions of dollars a year on new
9 projects, or again rebuilding projects.

10 And what is key for them, and I think
11 for many companies perhaps represented here, is
12 that they work the process every day; a process of
13 communications. They're really at my counter
14 virtually every day, someone is from Chevron.

15 But, importantly in the community
16 they're very active at many many levels from
17 education, culture and so on. And it's
18 interesting because what I think -- they've never
19 said this, but I think what they've done is they
20 never surprise anyone with a new project. And I
21 think it works very nicely that we, as a city,
22 don't surprise them with new regulations.

23 When requirements are coming down or
24 changing we call them. In fact, when first
25 invited to participate in this, when the meeting

1 was down there, I let them know what we were
2 doing. Likewise, Chevron is always keeping us in
3 the loop. And I think that's been instrumental
4 over the years in avoiding some of the problems
5 we've discussed today.

6 It's not a perfect relationship, but I
7 think both sides, from our elected officials,
8 appointed officials like myself, on down through
9 our staff, as well as at Chevron, we work that
10 hard all the time. And, again, we avoid the
11 surprises on both sides, and I think are able to
12 work very smoothly through a process.

13 So, I'd be happy to answer any
14 questions.

15 PRESIDING MEMBER GEESMAN: Sheri.

16 MS. REPP-LOADSMAN: Good afternoon,
17 Commissioners. Well, there have been a lot of
18 very valuable comments, I think, both this morning
19 as well as this afternoon. But I'd like to share
20 a little bit about the history of Carson, because
21 I think our history is very much intertwined with
22 the petroleum industry.

23 For those of you who are familiar with
24 Carson, you'll know that we're bounded by the Long
25 Beach freeway on the east, the Harbor freeway on

1 the west, the Alameda Corridor coming right
2 through the middle, and probably almost every
3 major pipeline coming through the middle of our
4 community, as well.

5 So when we incorporated in 1968 we
6 inherited I believe it was either five or six
7 active refineries, many support facilities and
8 terminals associated with petroleum, and a lot of
9 chemical manufacturing and distribution
10 facilities.

11 Now, over the years some of those
12 refineries are no longer with us. Golden Eagle,
13 Fletcher Oil, Shell have all closed down. Some of
14 them still have some remaining assets, especially
15 Shell with a very large terminal and their ethanol
16 facility. And we still have very active refining
17 operations obviously with bp, which is, I think,
18 probably close to the size of Chevron at this
19 point. They're very close to 1000 acres.

20 We've also, over the years, had some
21 preservation and expansion of our petroleum
22 industry. We have Air Products who came in with a
23 hydrogen manufacturing facility; something a
24 little unusual for most communities. But Carson
25 was able to understand it and embrace it and allow

1 it to occupy a very heavily industrialized area of
2 the community.

3 Now, over the years we've actually seen
4 our relationship with the petroleum industry
5 change. There's been a lot of active
6 communication over the years, and I think that's
7 one of the reasons the industry has thrived in
8 Carson. But I'm not sure that communication is as
9 strong today as it used to be.

10 We've also seen a change in terms of
11 who's participating in the communication. You
12 know, in the past we had both a very stable
13 industrial base and also a stable, I guess,
14 elected and appointed official base, where we had
15 an understanding for each other.

16 But things changed now. We see a lot
17 more change with our elected officials. And many
18 of them really don't understand the industry. So
19 there needs to be some continued dialogue and
20 education and communication to make sure that when
21 these projects come forward that there really is a
22 basis for understanding what is being proposed.

23 So I do encourage and maybe challenge
24 the industry to do a better job in that area.

25 You know, from a staff perspective I

1 guess I've been fortunate; I've been with Carson
2 for so many years I know many of the players. And
3 even though they've had changes in staff, I at
4 least understand what they're trying to
5 accomplish. So I often find myself in kind of an
6 ombudsman position where I'm the one helping to
7 explain to the community. But I don't necessarily
8 have the technical background, nor is that my
9 position to really present and defend their
10 projects. But I often do get put into that
11 position.

12 But I think that's an important role
13 that the cities need to provide. Because we often
14 are providing that bridge in terms of what the
15 community needs to understand and who they want to
16 hear it from versus people who may be seen as too
17 technical and maybe one-sided in the way that they
18 want to present the information.

19 A sit relates to kind of the issues
20 surrounding Carson at this point, you know, we're
21 actually finding that much of our opposition to
22 our petroleum infrastructure is not specific to
23 petroleum. It's really more specific to the over,
24 as some people would say it, the over-
25 industrialization of the ports and the port-

1 related areas.

2 The Ports of Long Beach and Los Angeles
3 have expanded tremendously over the years. And
4 with that expansion has come an increased
5 awareness of the environmental cost associated
6 with that expansion. We now have a lot of
7 environmental groups who, using the terms
8 environmental justice, using the terms of just now
9 understanding what's really happening in their
10 neighborhoods, they recognize the toxic emissions
11 that are coming from the ships, from the trains,
12 from the it seems millions of old diesel trucks
13 that come through our communities, that we have
14 almost an unfair burden because of the
15 relationship of the port.

16 And with the City of Carson, again
17 because everything seems to funnel through us,
18 what happens in the ports happens to us. And so
19 our community is now starting to pay much more
20 attention and starting to say why do we need to
21 have anything that presents an additional burden
22 to our local area.

23 And that presents a hard discussion for
24 all of us. Because from a staff perspective we
25 recognize the state's need to have petroleum

1 infrastructure. We also recognize the
2 infrastructure that currently supports the
3 existing petroleum businesses in Carson. And to
4 some extent there's not a lot of other places that
5 they can go.

6 Kinder-Morgan is an example. Where are
7 their pipelines? Well, they're going to their
8 existing facility. It's not really reasonable to
9 say build out in Mojave, because they don't have
10 the pipelines going out there.

11 But the community sometimes needs to
12 have just that baseline information so that they
13 can start understanding.

14 I think it's a long road that we will
15 all be traveling together as it relates to both
16 petroleum, as well as anything else associated
17 with the ports. We need to come up with a
18 balanced approach; one that continues to look at
19 air emissions in a way that provides long-term
20 viable solutions that are both cost effective, but
21 really do address the health impacts.

22 Local government needs to be educated.
23 We need to be informed of what we have as our own
24 local responsibilities. But also some of the
25 burden that we share because of our locations,

1 where we may need to be more responsive to the
2 state need than we otherwise would want to be.

3 But with that I think there's a
4 partnership with the state that needs to be
5 strengthened. When you're dealing with local
6 government and elected officials and appointed
7 officials who don't always have the background
8 information, I think the state can do a better job
9 of providing more information, more support, more
10 structure so that ultimately the elected officials
11 don't feel that they're making these decisions on
12 their own.

13 And with that I'd be happy to answer any
14 questions.

15 PRESIDING MEMBER GEESMAN: Well, i want
16 to thank you for being here, Sheri, and also to
17 say that I think the city is very fortunate to
18 have your services, based on the depth of your
19 experience and knowledge. And I certainly am
20 pleased to hear Kinder-Morgan's description of
21 your process.

22 I will say that your community, several
23 other organizations in southern California have
24 done a lot to try and shine a spotlight on some of
25 the defects and voids in our air quality

1 regulation, as it relates to the ports. And I
2 think there are a number of areas where this
3 Commission is likely to find itself in complete
4 support of some of those efforts to improve air
5 quality within the ports, particularly as it
6 relates to port electrification, the types of
7 fuels used within the ports.

8 Having been to at least one of your city
9 council meetings --

10 MS. REPP-LOADSMAN: Yes, and thank you
11 for surviving.

12 (Laughter.)

13 PRESIDING MEMBER GEESMAN: -- I will say
14 that I do think that we're destined to have a long
15 relationship working with --

16 (Laughter.)

17 PRESIDING MEMBER GEESMAN: -- this
18 together. I recall very distinctly the comment to
19 one of your elected city council members who
20 indicated that she was tired of doing the right
21 thing for the common good. And I think I can
22 appreciate her perspective, but at the same time I
23 can very easily predict that that position will
24 not prevail over time.

25 When Ronald Reagan signed the Warren

1 Alquist Act in 1974, creating this Commission,
2 there were 22 million people in California. Today
3 there are 35 million. In 2030 there will be 48
4 million. Ultimately I think the job of all of us
5 is to try and strive to accomplish the common
6 good, whether you're a state official or a local
7 official, or for that matter, a federal official.

8 And I think you hit the right chord
9 there, we do need to work together on these
10 problems. And I certainly think the state can do
11 a much much much better job of trying to establish
12 a clearer informational base from which we can all
13 make these decisions.

14 I certainly appreciate your being here.

15 MS. REPP-LOADSMAN: One other thing I'd
16 like to add is in addition to the support from
17 information and education, I think there's also
18 the discussion of community benefits. There are
19 certainly communities within the State of
20 California that do have unreasonable burdens
21 placed on them.

22 and there are opportunities for the
23 state to provide other types of community
24 benefits, whether that's based on infrastructure
25 and circulation needs, whether it's other types of

1 grants or programs that can otherwise support that
2 community.

3 But I think having a more broad, a more
4 holistic approach in looking at some of our
5 communities would ultimately create a better
6 relationship, as well.

7 PRESIDING MEMBER GEESMAN: I think
8 you're probably right.

9 Steve.

10 MR. PETEK: Yes, Mr. Chairman and
11 Members of the Committee. What I'd like to do is
12 I think share a little bit of a case study of how
13 the evolution of a community begins to impact the
14 siting issues that this workshop is about.

15 In 1960 East Yolo area of Yolo County
16 was blue collar, sleepy little town of I think
17 about 15,000 people with not a whole lot else
18 going on. And sometime after that, with the Port
19 of Sacramento coming in, it seemed to have been
20 discovered as the place for uses that nobody else
21 wanted to go.

22 PRESIDING MEMBER GEESMAN: You're not
23 including the proposed Governor's Mansion --

24 (Laughter.)

25 PRESIDING MEMBER GEESMAN: -- in that

1 category, are you?

2 MR. PETEK: No, this was in the '60s.

3 We began to see the development of things like
4 fertilizer manufacturing plants, rice silos
5 related to the port, cement silos and, yes, tank
6 farms.

7 What happened at that point, the tank
8 farms came in and presumably for perfectly logical
9 reasons decided that the ideal location for these
10 two tank farms was on a bluff overlooking the
11 Sacramento River, very near the downtown.

12 Because of -- I think you again really
13 kind of see what everybody talked about,
14 environmental justice, in those days, which was
15 completely ignored, you began to get those kinds
16 of uses. I think gradually it built up over the
17 years really the fire that eventually led to the
18 incorporation of West Sacramento in 1987.

19 And this community, as it's begun to
20 come into its own and become its own community has
21 began to come up with a different vision. We've
22 been working with the City of Sacramento, and in
23 fact both entities are realizing that in fact the
24 Sacramento River should not be a barrier between
25 Yolo County and Sacramento. The Sacramento River

1 should be a focal point of a regional downtown.

2 And so both communities really have come
3 up with a very different vision of what the banks
4 of the Sacramento River should be. And that
5 should be the center of a very urban residential,
6 high density residential/office/entertainment/
7 activity area that's a real focal point for this
8 region.

9 And unfortunately the tank farms still
10 stand precisely in that prime location.

11 We certainly recognize the importance of
12 doing the right thing for the common good. I
13 think this was -- Sheri mentioned there's some of
14 our communities who have felt we've done the right
15 thing too many times for the common good. And, in
16 fact, at some point we need to look out for the
17 best interests of West Sacramento and its
18 residents.

19 West Sacramento, if you've read the
20 papers, you know, we're a happening place. We are
21 a rapidly growing residential, beginning to see
22 residential development in the area of the tank
23 farms. We've begun to try to work with the
24 companies to see if we could relocate that. We've
25 approached them. We've indicated that we would be

1 willing, if they could look at possibly relocating
2 off the Sacramento River into a more densely area
3 of heavy industrial around the port, that we'd be
4 willing to look at that, we would consider that.

5 And they've basically said, no, we're
6 fine, --

7 (Laughter.)

8 MR. PETEK: -- we don't think it's a
9 problem; we think we've got the capacity we need;
10 we can out-wait you.

11 And so that's an area where I think the
12 evolution of this community from an area that was
13 really just a dumping ground, not a lot of
14 political power and support or cohesion, is
15 beginning to have a conflict here.

16 And in fact, we have put regulatory
17 limits on the expansion of those tank farms. And
18 may tighten those over the years. So we may be
19 moving towards a confrontory approach with them,
20 which is unfortunate. But we'd much prefer to
21 work with them.

22 I think the Committee and the industry
23 also need to be realistic about what these things
24 are. The tank farms are ugly. And they don't
25 have a lot of benefit, a lot of value added to the

1 host community. They don't produce a lot of
2 property taxes. They don't produce any sales
3 taxes. And they have a very damaging impact on
4 trying to bring in higher quality uses around
5 them. That just has to be faced squarely and
6 understood, and realize the communities do have
7 concerns about these kind of uses.

8 I think a point I would like to make is
9 if you want communities to embrace these uses, or
10 even consider them, put some value in there. Put
11 some of that sales tax that's presently booked out
12 of downtown San Francisco in the office buildings
13 where the corporate headquarters are, out into the
14 communities where the refineries and the tank
15 farms are, where the actual impacts are.

16 And I think we would like to work with
17 them. And we certainly are willing to keep them
18 in our community, but we do have a different
19 vision for what the riverfront is now. And over
20 the next 20 years that's going to evolve in a
21 significant way.

22 I'd also like to talk a little bit about
23 the Kinder-Morgan pipeline which ends at West
24 Sacramento, at those tank farms. And I think it
25 needs to be realized that as they come to approach

1 us and say, well, you know, we'd like to dig a
2 five-mile trench through your community from one
3 end to the other, and have your main arterial torn
4 up for about six months. That's okay, right?
5 That's not a problem?

6 Well, it is an impact, a significant
7 impact. And we, again, very little in return for
8 that. Yes, they have to put the street back more
9 or less in the way they found it, but in the
10 meantime we're torn up, our traffic is torn up.
11 It's a difficult situation for us. But we did
12 approve it.

13 I would point out actually the dynamics
14 of it is that ended up getting -- there was a
15 conditional use permit -- it ended up getting
16 appealed to the city council. But it was
17 primarily, the reason was people were trying to
18 figure out how to use the pipeline to put more
19 pressure on the tank farms. And so we can
20 definitely see that dynamic going on.

21 Be happy to answer any questions.

22 PRESIDING MEMBER GEESMAN: Don't think
23 so.

24 (Laughter.)

25 PRESIDING MEMBER GEESMAN: I want to

1 thank you, though, for participating.

2 I think, Rick, we're probably ready for
3 public comment? Anyone who desires to address us
4 should give Rick one of these blue cards. If you
5 haven't been able to get a blue card you might
6 raise your hand and he'll see to it that one is
7 provided to you.

8 Let me call first James Holland.
9 Actually, give our panel a chance to evacuate a
10 bit.

11 (Pause.)

12 PRESIDING MEMBER GEESMAN: I think if
13 you'd like to sit down, that would be fine. If
14 you'd prefer to stand, we can have you at the
15 podium over there.

16 And if you'd identify yourself, provide
17 your affiliation. And afterward, if you do have a
18 business card, if you could hand it to the court
19 reporter it would help to identify you in our
20 transcript.

21 MR. HOLLAND: My name is Jim Holland;
22 I'm Vice President of Operations for Los Angeles
23 Export Terminal. We're a facility in the Port of
24 Los Angeles. We have, since 1998, attempted to
25 develop various energy infrastructure. And been

1 thwarted by the Port of Los Angeles. I'm sure
2 Michael will go back and tell them just how
3 unhappy I am.

4 Since 1998 LAXT has attempted to develop
5 a crude oil receiving facility. We went to the
6 port; we had a refinery that was interested in
7 using our services. We were going to use some
8 existing pipelines, some unused existing tanks.
9 We would have been a negligible or a very minor
10 expansion on using mostly existing infrastructure.
11 We were going to use an existing dock.

12 We also have attempted to talk to the
13 port about an LNG terminal. And we've also talked
14 to them about a clean fuels terminal, gasoline,
15 diesel, et cetera.

16 In all cases the port has rejected out
17 suggestions out of hand. They initially, they
18 wanted a Pier 400 project. Our project didn't fit
19 their plans. They were unwilling to consider
20 alternate uses.

21 I'm getting all excited so I've messed
22 up my prepared remarks, so I will just -- as I
23 said, the Pier 400 project which has received a
24 lot of praise today was what the port wanted. We
25 don't feel that that's the best project for the

1 community. We think our project would be better.

2 The project that we have in mind
3 requires a shorter pipeline that uses an existing
4 dock; it uses many existing pipelines; and it
5 would put all of the tanks into a single location.

6 The alternative project that's been
7 given so much praise today has tanks, new tanks in
8 five different property parcels, many of which are
9 separated by roadways and railroad tracks. I
10 don't consider that good port planning or
11 management.

12 I think that's what I wanted to say,
13 thank you. And if any questions --

14 PRESIDING MEMBER GEESMAN: Just to make
15 certain, you're an existing tenant of the port?

16 MR. HOLLAND: We're an existing tenant
17 of the port; we have 117 acres under long-term
18 lease from the Port of Los Angeles. We asked for
19 a change in use; that's one of the port's
20 contentions or disagreements with us. We were a
21 coal and petroleum coke terminal, which we wanted
22 to redevelop using the under-utilized assets, the
23 dock which has deep water to handle crude oil
24 initially.

25 We agree with consultants, and some of

1 the companies who want to partner with us, agree
2 with everything we saw this morning. There's
3 going to be an extensive growth and demand for
4 both crude oil and clean products. And we'd like
5 to service those needs.

6 PRESIDING MEMBER GEESMAN: And the port
7 presumably has other plans for your leasehold?

8 MR. HOLLAND: It's uncertain exactly
9 what the port has in mind for our leasehold. They
10 have -- well, initially, in fact, with the project
11 that's received so much good press, Pier 400, they
12 were going to put the tanks on our leasehold.
13 That was a negotiation that took place without our
14 knowledge.

15 It's a difficult situation. We're
16 particularly unhappy with the Port of L.A., and we
17 would appreciate anything that the State Energy
18 Commission could do to help us frankly just create
19 a dialogue.

20 PRESIDING MEMBER GEESMAN: And you're
21 going to submit your written comments to us?

22 MR. HOLLAND: Yes, I'd be happy to.

23 PRESIDING MEMBER GEESMAN: Great.

24 MR. HOLLAND: Thank you.

25 ASSOCIATE MEMBER BOYD: Quick question.

1 MR. HOLLAND: Yes.

2 ASSOCIATE MEMBER BOYD: Your proposal
3 preceded the development of the so-called Pier
4 400? Or was it concurrent?

5 MR. HOLLAND: Pier 400 was initially
6 approved by the port in a bunch of documents as
7 energy island. That was its stated purpose. The
8 facility that I work at was actually what was
9 considered the keystone to the development of Pier
10 400. There was \$63.8 million of federal dredging
11 funds that came with the development of the
12 facility that I work at. And it allowed the
13 creation of Pier 400.

14 The original concept was the entire
15 island, or Pier 400, was going to be for energy
16 purposes. It's been changed over the years by the
17 port. It now has a 400-and-some-odd acre
18 container terminal. And the terminal that's being
19 discussed for Pier 400 now uses approximately 15
20 acres out of over 500 acres that exist out there.
21 And then the pipeline, and with tanks on Pier 300,
22 in essence, initially on the property that we
23 lease, and now on property adjacent to where we
24 lease.

25 ASSOCIATE MEMBER BOYD: Okay, I think

1 some of you may recall earlier in the day
2 Commissioner Geesman had referenced the last time,
3 or one of the times we had a hearing on this
4 general subject the port did say that the pier
5 area was developed as an energy island; they could
6 get no takers, so they turned it into a container
7 facility. And I found it curious that today we're
8 back using a little piece of it as a tank farm.

9 But unfortunately your story didn't come
10 up until today, so it kind of --

11 MR. HOLLAND: Right. We were told in
12 1998 when we initially made the suggestion that
13 no, their intent was to develop on Pier 400. They
14 needed an energy facility at Pier 400.

15 PRESIDING MEMBER GEESMAN: Well, thank
16 you, Jim.

17 ASSOCIATE MEMBER BOYD: Thank you.

18 MR. HOLLAND: Thank you.

19 PRESIDING MEMBER GEESMAN: Neil Koehler.

20 MR. KOEHLER: Commissioners, thank you
21 for the opportunity to make a couple of comments.
22 My name is Neil Koehler with the California
23 Renewable Fuels Partnership. We are a coalition
24 of agricultural, environmental, local government
25 and renewable energy producing entities that are

1 trying to give a voice to the production and
2 marketing of ethanol and other biofuels in the
3 State of California.

4 I want to address some infrastructure
5 and some supply issues and really opportunities
6 relating to ethanol that kind of were embedded in
7 some of the staff presentation this morning, but
8 remarkably we're really addressed in terms of the
9 opportunity to use more ethanol in California to
10 help meet both infrastructure and supply
11 constraints.

12 We are currently using a blend of 5.7
13 percent ethanol by volume in California's
14 gasoline. Everywhere where ethanol is used to
15 meet RFG requirements. In the rest of the country
16 ethanol is used at 10 percent. We could use 10
17 percent ethanol in California and immediately
18 increase the supply of transportation fuels by 4
19 percent in California.

20 There is literally and truly no other
21 short-term mechanism that could be brought to bear
22 that could provide that kind of incremental supply
23 to California transportation system. And it's
24 something that we really think needs to be focused
25 on. It is part of the AB-2076. Embedded again in

1 the displacement with alternative fuels, the use
2 of 10 percent ethanol is discussed. But in that
3 chart today it looked like it just was continuing
4 the ethanol line at the current use, and not
5 looking at the ability to bring incremental
6 supplies.

7 This 4 percent increase in supply could
8 come tomorrow. I mean we saw the charts this
9 morning about how the ethanol industry has grown
10 at a remarkable clip. Twenty percent per year
11 over the last three years, and that continues to
12 this day, to where we'll have 5-, 6-billion
13 gallons of ethanol over the next year and half to
14 two years capacity. That's becoming a very
15 significant and the fastest growing source of
16 transportation fuel in the world.

17 The ethanol net is tax incentives. We
18 also hear that this morning. It's become very
19 cost effective in spite of a lot of concerns over
20 both supply and price. Ethanol has performed in
21 California. It is cheaper than gasoline and
22 provides octane and clean air while it's being
23 added. So it's really something that not only
24 would be incremental supply by using more, but
25 would actually help moderate price increases due

1 to its both supply and cost characteristics.

2 The issue -- and beyond that, the
3 ethanol is available today. I've been involved,
4 myself, for 20 years in the production and
5 marketing of ethanol in California. Today there's
6 two small ethanol plants that produce 7 million
7 gallons, which obviously is a very small quantity
8 of ethanol, the rest coming from other primarily
9 domestic sources in the midwest.

10 We do have the opportunity to produce
11 ethanol. I'm involved in an effort to build an
12 ethanol plant in Madera, California, that
13 hopefully will be breaking ground this year. It's
14 fully permitted. There are other folks that are
15 trying to do that.

16 Because ethanol plants are so much more
17 benign, relative to gasoline refineries, the
18 permitting of them is not that difficult. We were
19 able to permit an ethanol plant in California, 35
20 million gallon plant in less than six months, or
21 about six months. And that's very significant.

22 There will be some issues that come up
23 in different communities, different areas. But we
24 have such unique opportunity to produce ethanol
25 and build a number of biorefineries in California,

1 I think from an infrastructure standpoint, it's
2 really something that should be certainly part of
3 the Siting Committee's focus. And I think it's
4 part of that paradigm shift where we're talking
5 about one-half of 1 percent increases in gasoline
6 production from refineries. And here we're seeing
7 20 percent annual increases in domestic ethanol
8 production. You know, we should be part of that
9 here in California, because we can truly build
10 these ethanol plants and have it be a significant
11 contributor to the transportation system.

12 So, there's some infrastructure issues
13 that will come up as we try to build this industry
14 in the state. And we'd certainly like to see some
15 help in that regard. As it relates to the
16 infrastructure of bringing 10 percent ethanol, and
17 this is, you know, the immediate here and now,
18 short-term opportunity, it's relatively modest and
19 minor.

20 We have a system that handles the 6
21 percent ethanol just fine. We heard earlier on
22 how there's enough storage to even have more days
23 of ethanol supply than in gasoline. So moving to
24 a 10 percent blend, it might in some areas require
25 some additional tankage, and some areas it might

1 not. All the infrastructure is essentially in
2 place with some minor tweaking to accommodate this
3 4 percent added supply that can be brought to
4 California.

5 So, you might ask if it's that cheap, if
6 everybody else is doing it, if the supply's out
7 there why are we not doing 10 percent ethanol in
8 California. And very specifically it's due to the
9 air quality regulations in the predictive model
10 that, in our view, is terribly outmoded as it
11 relates to the emission characteristics of
12 ethanol. And is outmoded as it relates to trying
13 to optimize a fuel regulation around the fuels
14 that we have. That includes ethanol.

15 The phase three regulations, in our
16 view, were really written around more moving from
17 MTBE and into more straight gasoline, tied a bit
18 into the waiver request and those sorts of things.

19 Well, there were legitimate concerns
20 that ethanol wouldn't make it to California at a
21 affordable price and in a reliable way. You,
22 yourselves, had reports from consultants that
23 predicted that the wheels would fall off the bus.
24 And, in fact, they haven't. We changed in for
25 some pretty nice new wheels on the bus. And

1 things are moving forward.

2 So, it is important that the Air Board
3 and the Energy Commission work together to make
4 immediate modifications to the air quality
5 regulations to optimize for ethanol blending in a
6 way that will not only preserve, but possibly
7 extend, the air quality benefits, particularly as
8 it relates to CO2 and climate change issues.

9 So that we can start blending ethanol,
10 give the refiners the option to blend ethanol --
11 we're not talking about mandates -- the option to
12 blend ethanol at its most optimal level, which is
13 10 percent, which will provide the greatest energy
14 and environmental benefit to the State of
15 California, just as it's done in the rest of the
16 country.

17 Refiners aren't required to use 10
18 percent ethanol in New York, but when given the
19 opportunity, because of the economics, they do it.

20 So, appreciate the time, and would
21 really like to see this whole issue of incremental
22 amounts of ethanol addressed, because it really
23 is, from both an infrastructure and supply
24 standpoint, probably the most valuable thing you
25 could bring to bear in the short term.

1 I'd be happy to answer any questions.

2 PRESIDING MEMBER GEESMAN: Thank you.

3 Kevin Dayton.

4 MR. DAYTON: Thank you. I'm Kevin
5 Dayton, Vice President of Government Affairs for
6 the Golden Gate Chapter of Associated Builders and
7 Contractors based in Dublin. We represent more
8 than 500 predominately nonunion contractors in the
9 northern California construction industry,
10 including many companies that do industrial
11 construction.

12 And I'm here today to discuss a cause of
13 petroleum infrastructure development constraints
14 on the local level that really hasn't been
15 discussed too much. Obviously when you're on the
16 level with local government there are a lot of
17 special interest groups that come into play there,
18 and I think your staff here had an idea of what
19 some of these special interest groups are when
20 they had an informal meeting with construction
21 unions earlier this year to discuss what goes on
22 during the permitting process.

23 The truth is some constraints in the
24 approval process are unrelated to environmental
25 protection. And the problem is the permitting

1 process is tangled up in the struggle between
2 construction unions and nonunion contractors over
3 who gets to do work on these petroleum
4 infrastructure projects, which, of course, are
5 worth a lot of money.

6 What we often see, and our contractors
7 have been complaining about this for now about 15
8 years, we see the unions getting involved to
9 request successive data from developers or draw
10 the permit approval process with a goal of the
11 developer signing a project labor agreement, or
12 some other type of union-only agreement with the
13 developer.

14 And this started probably in the early
15 1990s when refineries did their first phase in
16 converting to the reformulated gasoline. Once
17 again, it's been going on for many years since we
18 actually have seen this on marine terminals,
19 storage tanks, ethanol plants, basically
20 everything that's been discussed today. This is
21 something that we see the construction unions
22 doing, getting involved in the permitting process.

23 The problem with it, I think, beyond the
24 problem for our members losing work on it, is that
25 even though this sort of activity is part of the

1 permitting process, it doesn't occur in view of
2 the public. These agreements are made behind the
3 scenes. The public isn't aware of the demands
4 that are made on the developers. They have no
5 chance to speak out for or against them.

6 We believe that the project labor
7 agreements and the activities regarding this
8 permitting process should be documented in the
9 next Integrated Energy Policy Report. We would
10 also be interested in talking to your staff
11 informally. Some of our contractors, I think,
12 would have some very interesting perspective of
13 what happens during the permitting process;
14 instances where our contractors believe that
15 they're going to be getting a job at a refinery
16 and all of a sudden they found out they aren't
17 because of problems that have come up in the
18 permitting process through construction unions.

19 So, I'd ask you to consider these two
20 requests, and see that the project labor agreement
21 component in the permitting process is open to the
22 public.

23 Thank you.

24 PRESIDING MEMBER GEESMAN: Thank you.

25 Will Rostov.

1 MR. ROSTOV: Good afternoon. Thanks for
2 having a public comment. I know it's been a long
3 day and I'll try to keep my comments short. But I
4 do believe I have some important things to say.

5 My name's Will Rostov and I'm a staff
6 attorney for Communities for a Better Environment.
7 We're an environmental health and justice
8 organization that works with low income urban
9 communities around industrial facilities; many
10 around refineries and ports.

11 The first point is people live around
12 refineries and ports, and they demand clean air
13 and clean water. They also demand a right to
14 participate in the decisions that affect them.
15 And that's what environmental justice is about.

16 I think I'm uniquely qualified to be
17 speaking here because my organization has been
18 involved in the permitting for the ConocoPhillips,
19 the Paramount, the Kinder-Morgan and the Chevron
20 ethanol tank. In addition, I've personally worked
21 on two siting cases in front of the California
22 Energy Commission.

23 I just want to go through some of the
24 permitting that's been discussed in a little more
25 detail. The ConocoPhillips, which was an

1 expansion of 10,000 barrels of ultra low sulfur
2 diesel, which I don't think was mentioned,
3 occurred in a one-year time period from the time
4 of application with the county until the time the
5 permit was issued.

6 There was a draft environmental impact
7 report which my group did extensive comments on.
8 We had a lot of problems with the draft
9 environmental impact report. We had three experts
10 talking about the environmental issues and
11 environmental justice issues.

12 We had the opportunity, if the city were
13 to certify without addressing our issues and
14 without -- if ConocoPhillips would not have
15 addressed our issues, to go to court afterwards.
16 But what happened was ConocoPhillips, wanting the
17 desire to expand their facility, knowing that they
18 had a market for their ultra low sulfur diesel,
19 they were willing to come to the table and talk
20 about the environmental justice concerns. The
21 fact that their project was going to have more
22 impacts on the local community.

23 We were able to essentially develop an
24 agreement where we were able to get significant
25 reductions in local pollution. For example, one

1 mitigation was the facility was proposing to
2 increase PM10 by over 9 tons per day -- or per
3 year -- no, over 9 tons. And essentially, the
4 facility agreed to mitigate those 9 tons on the
5 existing facility.

6 That would not have happened without the
7 existing process, because we had the leverage, we
8 had the opportunity to appeal if our concerns were
9 not considered.

10 We also participated in the Paramount.
11 I didn't work on this personally, but my
12 organization did, in the Paramount expansion. And
13 there, too, we were ready to propose -- we had
14 substantive comments; we talked with the facility
15 before the comment period was over and we were
16 able to come to a good neighbor agreement where
17 both this community's concerns and the facility's
18 concerns were met, and the facility was able to be
19 permitted.

20 With Kinder-Morgan there was a comment
21 that the process had been appealed to the city
22 council. Well, that's not exactly true. What
23 actually happened is we submitted comments; we
24 stressed that there was some serious defects in
25 the draft environmental impact report. And

1 Kinder-Morgan voluntarily withdrew that, and now
2 is reevaluating -- Kinder-Morgan and the City of
3 Carson are reevaluating the environmental
4 analysis. And we'll see what happens with that,
5 but I believe that process will continue to occur
6 in an expeditious manner because all the issues
7 have been able to be laid out on the table.

8 PRESIDING MEMBER GEESMAN: I should add
9 on that one, because I do have a small piece of
10 insight into it, that the night that I was at the
11 Carson City Council meeting, and I think it was a
12 couple of weeks, if not more, after the planning
13 commission had approved the project, it was my
14 understanding that your organization was still not
15 ready to meet with the applicant.

16 So, I would suggest to you those changes
17 might have been possible in the reconfiguration of
18 the project had there been an earlier dialogue
19 than was, in fact, the case.

20 MR. ROSTOV: I think we are planning on
21 meeting with them, but --

22 PRESIDING MEMBER GEESMAN: Yeah, I think
23 you are now. But, dialogue goes two ways; and
24 timing is a relevant consideration from both sides
25 of the table.

1 MR. ROSTOV: Right. And my point is
2 that the public can be cut out of the process.
3 When I hear the words streamlining permits I know
4 that as a code word. And the people who live in
5 these communities know that's a code word for
6 turning the public out of the process.

7 As a matter of fact, my experience in
8 the CEC process is that I agree with the City of
9 Benecia that it's a lot harder to participate in
10 the CEC process than it is in the CEQA process
11 through these local agencies. And the public has
12 much more opportunity to have a real effect and
13 determine what the conditions around and in their
14 lives are going to be. You know, is there going
15 to be cleaner air and cleaner water. That's
16 better when you have the opportunity to talk to
17 your local officials about that.

18 And on that note, the CEC had two
19 informal workshops on these issues. I'll note
20 that they were informal because there was no
21 recording. At the first one in L.A. there was
22 over 50 people who attended; all opposed to this
23 permit streamlining. But that is not on this
24 record.

25 And my office -- we have two offices,

1 one in Oakland and one in Huntington Park -- we
2 received the notice for this one sometime last
3 week. I was out of town. And the Huntington Park
4 office didn't receive it till Friday. So there
5 was really no opportunity for many of the people
6 that we would necessarily bring to a meeting like
7 this, to show up, because of the lack of public
8 notice, which has been a problem for environmental
9 justice communities for a long time.

10 I also wanted to address the Chevron
11 ethanol tank. Commissioner Geesman, you asked the
12 question was the public resources used in an
13 efficient manner. Or was there a -- were the
14 investment of public resources worth it, to
15 paraphrase.

16 And I would say yes. The fact that the
17 Chevron employee left out was that Chevron was
18 proposing to build an ethanol tank at their
19 terminal where there's a high level hydrocarbon
20 contamination underneath the site of the ethanol
21 tank. The State of California's own report says
22 one of the main problems with ethanol is that it
23 can spread hydrocarbon contamination when you have
24 a large plume with hydrocarbon contamination.

25 And this was exactly the place where you

1 would have that type of environmental problem.
2 And that's why there needed to be a lot of
3 environmental review. That's why my organization
4 participated in it through all the public process
5 to make sure people knew that there was an
6 opportunity for water contamination to occur at a
7 greater rate because of where the ethanol tank was
8 sited.

9 And I'd also like to point out --

10 PRESIDING MEMBER GEESMAN: Well, but on
11 that point, the city's representative said that
12 the project didn't change from the project that
13 was applied for, and that the mitigation measures
14 imposed were not that significant.

15 MR. ROSTOV: Right. I agree. And I
16 think --

17 PRESIDING MEMBER GEESMAN: So tell me
18 the benefit that was achieved.

19 MR. ROSTOV: The benefit was achieved --
20 well, let me back up a second. The other thing
21 the city said was that there was -- Chevron had
22 been coming forward with different parts of --
23 changes at their oil refinery piece by piece. We
24 call it piecemealing under CEQA. And we thought
25 that was part of a piecemealing that the RFT 3

1 project.

2 Essentially we believe, and we've
3 alleged this in a lawsuit that's on appeal that
4 Chevron has piecemealed their compliance with RFG
5 3. Essentially they had not been complying with
6 CEQA.

7 And the fact that they didn't bring
8 everything together at once is what's delayed the
9 environmental review. They've been doing each
10 part of the refinery in sequence, which seems to
11 be a problem. And I think that contrasts --

12 PRESIDING MEMBER GEESMAN: Which
13 arguably is inherent in a localized review
14 process. I was actually quite surprised to hear
15 the representative from Benecia describe a
16 completely different process that appears to have
17 been followed by Valero.

18 MR. ROSTOV: And I agree. And that's
19 the point I was going to make. I think Chevron,
20 the company's approach to permitting is just as
21 important as the process. And I think the Valero
22 example is a better example.

23 I mean we don't want companies coming
24 and saying, one week, oh, we have this part of a
25 project; we have LPG spheres; and then we have the

1 ethanol tank; and then we have the plant. And we
2 have to piece together, as a community, or as the
3 environmental group, that this is all part of one
4 project. That's not fair to us. And we think
5 violates CEQA. We'll find out what the courts
6 say.

7 But the company approach to permitting
8 can be as problematic to this process as your
9 perceived problems with the permitting process, is
10 my point.

11 PRESIDING MEMBER GEESMAN: Yeah, but I
12 guess I would suggest that you think of the
13 sequential nature of the permitting process, and
14 the sequential availability of judicial review as
15 being piecemealing from a statewide perspective.

16 I think they're parallel arguments.

17 MR. ROSTOV: I think it's long
18 established that the public participating in
19 environmental decisions is important value. I
20 believe the State --

21 PRESIDING MEMBER GEESMAN: I completely
22 agree with that.

23 MR. ROSTOV: -- of California --

24 PRESIDING MEMBER GEESMAN: I completely
25 agree with that.

1 MR. ROSTOV: Right. And I believe what
2 the proposals on the table are trying to limit
3 that participation. And I thought the Paramount
4 was --

5 PRESIDING MEMBER GEESMAN: Which
6 proposals are those?

7 MR. ROSTOV: The one-stop permitting,
8 and, as a matter of fact, the judicial review,
9 making the judicial review similar to Warren
10 Alquist, as opposed to what it is now, where in
11 the CEQA process you would go to a state court or
12 you would develop the facts of the -- whatever the
13 refinery expansion. If you go straight to the
14 supreme court you will not have -- the public
15 would not have the opportunity to participate on
16 the highest level. The supreme court will just
17 not dig into a record of a refinery expansion the
18 same way as the superior court will.

19 I think that's a very scary proposal
20 from the environmental perspective. And I think
21 it limits the right of environmentalists to
22 participate in the process.

23 So I just wanted to make the point that
24 I believe that maintaining judicial review is key
25 to the process; and that the current process is

1 better than what the CEC has to offer in the
2 alternative. I've participated in both; my
3 opinion is the current process for refinery
4 expansion works. It works and provides the
5 opportunity for communities to achieve
6 environmental benefits for their community at the
7 same time, while allowing expansions to go
8 forward. I think ConocoPhillips is a good
9 example.

10 PRESIDING MEMBER GEESMAN: Which power
11 plant processes did you participate in?

12 MR. ROSTOV: I participated in Nueva
13 Azalea which is Southgate, and --

14 PRESIDING MEMBER GEESMAN: That's the
15 one that was canceled, correct?

16 MR. ROSTOV: Right. We --

17 PRESIDING MEMBER GEESMAN: I guess I
18 would score that one as a win for your side.

19 MR. ROSTOV: Thank you.

20 PRESIDING MEMBER GEESMAN: So, wouldn't
21 you characterize that as having accomplished
22 tremendous community benefit?

23 MR. ROSTOV: I would, but I think it
24 was --

25 PRESIDING MEMBER GEESMAN: Sounds to me

1 like a pretty good process from your perspective.

2

3 MR. ROSTOV: No, I think your process
4 was an impediment. I think the CEC process was
5 actually an impediment to our victory. And the
6 fact that it's so complicated, and resource
7 intensive, it's harder for people, environmental
8 justice communities to participate.

9 I think the fact that --

10 PRESIDING MEMBER GEESMAN: And yet you
11 accomplished the results you wanted.

12 MR. ROSTOV: Right. And I think that
13 was despite the process, not because of the
14 process. And that -- in my opinion. And we might
15 have a difference of opinion.

16 PRESIDING MEMBER GEESMAN: How far did
17 the process proceed before you won?

18 MR. ROSTOV: It went through the data
19 requests period; it hadn't gone to hearings yet.

20 PRESIDING MEMBER GEESMAN: Pretty early
21 in the process.

22 MR. ROSTOV: Yes. But that was kind of
23 unique, too. The applicant, who suggested that he
24 would withdraw if the people voted against the
25 project, which occurred in a nonbinding vote. The

1 other --

2 PRESIDING MEMBER GEESMAN: What was the
3 second project?

4 MR. ROSTOV: The other project is the
5 Potrero Power Plant, which is now in its fourth
6 year, even though it's a 12-month process. There
7 the applicant has suspended the proceedings.

8 PRESIDING MEMBER GEESMAN: What adverse
9 impact has your community experienced as a result
10 of the Potrero project?

11 MR. ROSTOV: So far none because we've
12 been successful in delaying the project.

13 PRESIDING MEMBER GEESMAN: Again, that
14 would sound to me like a pretty good process from
15 the perspective of your client.

16 MR. ROSTOV: Once again, I think the
17 reason in that case, the reason I think the
18 project was ultimately suspended -- I mean you'd
19 have to talk to the applicant, but I think it was
20 actually the Bay Conservation Development
21 Corporation came out with a finding based on some
22 of what the CEC Staff did, I'll admit that, saying
23 that there was a cooling alternative.

24 But the CEC, itself, had not addressed
25 the issue of cooling.

1 PRESIDING MEMBER GEESMAN: Now how many
2 staff do you have participating in this case, the
3 Potrero case?

4 MR. ROSTOV: Potrero?

5 PRESIDING MEMBER GEESMAN: Yeah.

6 MR. ROSTOV: It used to be two, until
7 one left; and now it's me plus the staff
8 scientist.

9 PRESIDING MEMBER GEESMAN: So despite
10 the complex nature of it, one attorney and one
11 other staff person were able to succeed as
12 effectively as you appear to have succeeded. And
13 you're complaining that it's too complicated, and
14 too expensive?

15 MR. ROSTOV: Yes. Yes. Especially
16 because there's no cost recovery at the end.

17 PRESIDING MEMBER GEESMAN: You hold out
18 a tough standard.

19 MR. ROSTOV: I don't think I do.
20 Because in reality there's no cost recovery at the
21 end. If we, for example, if we litigate to
22 success the Chevron case that we have in the
23 appeals court, under Government 1021.5 we'll be
24 able to recover fees.

25 PRESIDING MEMBER GEESMAN: But that's

1 not why you --

2 MR. ROSTOV: In the CEC --

3 PRESIDING MEMBER GEESMAN: -- prefer
4 that process, is it?

5 MR. ROSTOV: No. But I'm just saying
6 that we -- it's not a level playing field.

7 PRESIDING MEMBER GEESMAN: No, you win,
8 all the time in the Energy Commission process, and
9 you've got to take your chances in the courts in
10 this other process.

11 MR. ROSTOV: I would disagree. I mean
12 my experience is different. Because the reason
13 the Potrero fight was so successful, I think, was
14 partly because the City of San Francisco was also
15 in opposition. And I don't know the exact numbers
16 but I would guess they would have spent several
17 hundred thousand dollars on experts.

18 I'll tell you this right now, that we
19 have never spent that much on experts in a siting
20 facility case. And we couldn't, we don't have the
21 resources. We have very low budgets. To
22 effectively work in a siting process you need very
23 good legal counsel, you need very good experts.
24 And very very few groups have one or the other, if
25 not both.

1 I just have a couple more points about
2 the economics of the situation, as well, if I --
3 if you'd indulge me.

4 PRESIDING MEMBER GEESMAN: No, please go
5 ahead.

6 MR. ROSTOV: On the economics issues I
7 believe there is no analysis that there is fewer
8 players today in the market with essentially
9 there's supply constraints and there's fewer
10 players. And there really has been no antitrust
11 analysis is my point.

12 And I think that was emphasized by the
13 Chemoil person who stated that Kinder-Morgan,
14 according to Commissioner Boyd, essentially had a
15 market power that they were exercising. But
16 that's also the case in the refinery context.

17 As a matter of fact, Shell is shutting
18 down one of the refineries so the supply
19 constraints are now tighter.

20 PRESIDING MEMBER GEESMAN: Have you read
21 the report that the UC Energy Institute has
22 prepared under contract to us on market power in
23 the gasoline market?

24 MR. ROSTOV: I don't think so.

25 PRESIDING MEMBER GEESMAN: I'd encourage

1 you to do that, and I believe that we'll probably
2 be having a workshop on it in the next month or
3 two, and I'd encourage you to come to that
4 workshop if you're interested --

5 MR. ROSTOV: Thank you for the
6 invitation.

7 I'd also like to emphasize that Bill
8 English, he was one of the consultants, stated
9 there was margins for expansion. And I think
10 Paramount exemplifies that. Essentially Paramount
11 was out of the gasoline production business and
12 now they've gone into it.

13 But I think it also raises an
14 interesting question. If there really are margins
15 for expansion why are the major refineries not
16 expanding? And I think the answer is, this is
17 definitely my opinion, is that supply constraints
18 are good for the major refineries. Increase in
19 price is a good thing because it increases profit.

20 I also want to clear the record. I also
21 believe that there hasn't been enough attention to
22 the expansions that have occurred during the '90s.
23 I'm familiar with expansions that occurred during
24 RFG2, reformulated gas 2, reformulated gas 3 and
25 now I believe that with the ultra low sulfur

1 diesel requirements, there will be expansions that
2 occur as part of the retooling and for meeting
3 those air standards.

4 Another thing that maybe was addressed
5 in the report, which I admit I haven't read, but I
6 think is something that is important that CEC
7 consider, and that I did not hear today, is --
8 there was a brief reference to it, but oil is a
9 commodity. And the analysis of oil as a commodity
10 affects price. It's not just simple supply and
11 demand. I'll just leave that point.

12 And in conclusion the oil companies sold
13 this state and the whole U.S., our country, a bill
14 of goods with the MTBE. Essentially they said
15 they would clean the air. And as we discovered,
16 it dirtied the water.

17 We also discovered through one of our
18 law suits that they knew that it was going to
19 dirty the water. Now the oil companies come here
20 and say we need permit streamlining. I posit that
21 they are selling the State of California another
22 bill of goods, similar to MTBE.

23 And I believe the people who live near
24 these facilities see this as a false bill of
25 goods, as well. And when I sat there through the

1 day, through all these industries saying we need
2 help with this, we need help with that, it sounds
3 to me like government welfare for an oil industry
4 with record profits, with an army of lawyers, an
5 army of consultants and lobbyists. And I think
6 that's simply wrong.

7 So I resist the urge to make fast
8 decisions given the crisis of the day, be it power
9 crisis or price spikes in gasoline prices.
10 Because what you do today will leave a legacy for
11 the future. Thanks.

12 PRESIDING MEMBER GEESMAN: Thank you. I
13 have had long-standing admiration for your
14 organization; and I would encourage you the next
15 time you come back before us on this topic to
16 address my concern that in 1974 we had 22 million
17 people; today we have 35 million people; in 2030
18 we'll have 48 million people. And we need to
19 provide an adequate supply of transportation fuels
20 for them.

21 MR. ROSTOV: Right. And I -- first,
22 thank you for that long-standing admiration.
23 Second, I agree that that's an important value
24 that we all should move towards. And we need to
25 look at both the demand and supply.

1 And I think the focus of my points at
2 the early part was environmental justice can occur
3 and environmental benefits for communities that
4 live near oil refineries can occur if everybody's
5 willing to participate in the process. And if
6 there's a legitimate process for environmental
7 justice communities to participate in.

8 PRESIDING MEMBER GEESMAN: Well, I look
9 forward to hearing your organization's
10 recommendations on how best to achieve that.

11 MR. ROSTOV: Thank you.

12 PRESIDING MEMBER GEESMAN: And to meet
13 my long-term concerns about a growing population.

14 MR. ROSTOV: Thank you.

15 PRESIDING MEMBER GEESMAN: Thank you.
16 Jim Swaney.

17 MR. SWANEY: Good afternoon; I'm Jim
18 Swaney, a permit services manager with the San
19 Joaquin Valley Air Pollution Control District.

20 First, I want to say that we do support
21 your efforts in streamlining the whole permitting
22 process, and hopefully at the end of this we not
23 only will have a better process for the petroleum
24 infrastructure, but a better process that we can
25 apply to all projects.

1 We fully agree and support the earlier
2 comments made by Carol Coy and Steve Hill from our
3 fellow Air Districts. We also have done a number
4 of permit streamlining activities over the past
5 year. We did this as a way to speed up our
6 process to eliminate duplication and things that
7 were happening that did not need to happen.

8 We still are having periodic meetings on
9 that of which WSPA and one of the independent
10 refineries in Bakersfield are key players in that.

11 We also do encourage preapplication
12 meetings so that we have a better understanding of
13 what the projects will be, and can better consult
14 and let the applicant know what the issues they're
15 going to be facing are.

16 As was earlier stated, we also support
17 having a best practices guidance document. Any
18 type of guidance documents to help local agencies
19 through the CEQA process will definitely be
20 appreciated.

21 There is only one other thing that I
22 wanted to say, and that was one concern that my
23 agency has with doing a permit streamlining. We
24 would be opposed to anything that would either
25 simply duplicate what air districts do, or would

1 preempt what air districts do. We're the experts
2 in the local regulations and we want to make sure
3 that we continue to be an important part of the
4 process.

5 Thank you.

6 PRESIDING MEMBER GEESMAN: Thank you.

7 Greg Shipley.

8 MR. SHIPLEY: Greg Shipley, Waste to
9 Energy. We're an ethanol producer. And just to
10 add a little bit to what was said earlier, is that
11 we're what you call a conversion technology.
12 We're also regulated by the California Integrated
13 Waste Management Board.

14 To that extent, I would like to ask the
15 Energy Commission to please give some
16 consideration to working further with the Waste
17 Board. I know that you have a dialogue going on
18 now, but it's vitally important because there are
19 new technologies out there.

20 For instance, we need to build a
21 conversion technology plant that is basically a
22 commercial validation plant. Since it's the first
23 one in California. That may take some
24 consideration because our technology, a little
25 different from the ethanol plants in the midwest

1 or the one, the 35 million gallon plant that was
2 just talked about, is that our technology actually
3 takes the garbage, the cellulosic portion of the
4 garbage stream, converts it into ethanol. And
5 then we also take that residual material and
6 produce electricity to run our own plants.

7 So you have a lot of win/wins there.
8 But with our technology, for instance, we will be
9 build a place, small to medium sized ethanol
10 plants at virtually any landfill, transfer station
11 or recycling center anywhere in the state.

12 What that does is it puts ethanol supply
13 where the terminals are. These are population
14 centers. So you have just-in-time delivery, for
15 instance, which is a low-cost ethanol supplier.
16 You eliminate transportation costs and the
17 associated environmental problems with
18 transportation.

19 You also have the ability to produce,
20 for instance in our case, we only are looking at
21 20 percent market share, but our total market
22 projections are somewhere between 300- and 500-
23 million gallons of ethanol through the Integrated
24 Waste Management system, if you will. That can
25 have a major impact on the transportation fuels in

1 California in the future.

2 Just to make one, or actually two
3 suggestions, is that in terms of working with the
4 Integrated Waste Management Board, we've already
5 suggested and I would like to suggest that the
6 Energy Commission also look into this, is that for
7 commercial validation plants, small plants just to
8 try the systems out, because these are new
9 technologies, that there be an exemption process
10 for that type of facility.

11 In our case our process is a skid-
12 mounted technology so that it virtually is a
13 cookie-cutter type of operation. And I would like
14 to go along with the earlier suggestions that
15 should that be termed or deemed by the CEC, that
16 the permitting process could be streamlined, with
17 review by local governments only.

18 And that concludes my --

19 ASSOCIATE MEMBER BOYD: So your
20 exemption is to just leave it with local
21 government?

22 MR. SHIPLEY: The exemptions that we're
23 looking for for a commercial validation plant
24 would be on, you know, almost like a mitigated
25 CEQA process, where we present the data and it's

1 simply a review, so that --

2 PRESIDING MEMBER GEESMAN: You want to
3 be exempted from what, though?

4 MR. SHIPLEY: Well, like from air, the
5 air standards and --

6 PRESIDING MEMBER GEESMAN: That's not
7 going to happen. What's your next request?

8 (Laughter.)

9 MR. SHIPLEY: Well, hey, I got to try,
10 right?

11 (Laughter.)

12 ASSOCIATE MEMBER BOYD: You better talk
13 to the gentleman from CBE and see what you two can
14 work out.

15 MR. SHIPLEY: Should I try and go for
16 water?

17 (Laughter.)

18 PRESIDING MEMBER GEESMAN: That's not
19 likely, either. I will say, because you're not
20 likely to be more than 50 megawatts, you'll be
21 exempt from our process.

22 MR. SHIPLEY: That's good. At any rate,
23 I would suggest that the CEC be as involved or
24 even more involved with the Waste Board to make
25 these new technologies -- we need to get them off

1 the ground.

2 PRESIDING MEMBER GEESMAN: Sure. And
3 you currently have something in front of the Waste
4 Board now?

5 MR. SHIPLEY: Yes, we --

6 PRESIDING MEMBER GEESMAN: Good.

7 MR. SHIPLEY: -- we're actually going
8 through the permit process --

9 PRESIDING MEMBER GEESMAN: Good.

10 MR. SHIPLEY: -- in Riverside County
11 right now.

12 PRESIDING MEMBER GEESMAN: Good.

13 ASSOCIATE MEMBER BOYD: Well, you've got
14 a lot of support at this agency for biomass, for
15 biofuel, et cetera, so --

16 MR. SHIPLEY: Thank you very much;
17 appreciate it.

18 ASSOCIATE MEMBER BOYD: We have a long-
19 standing relationship with the Waste Board.

20 PRESIDING MEMBER GEESMAN: Steve Friar.

21 MR. FRIAR: Good afternoon,
22 Commissioners. Thanks for having me. My name is
23 Steve Friar and I'm with a group called the
24 Coalition for Fair Employment in Construction.

25 I think most people in this room will be

1 pleased to know that I'm probably the last
2 speaker, since I think I turned in my slip last.

3 But we are a nonprofit group focused
4 solely on educating local leaders, developers on
5 the ill effects of project labor agreements. You
6 heard earlier Kevin Dayton from the ABC talk about
7 some of the problems we face.

8 And I would strongly encourage you to
9 hopefully adopt his two recommendations. One is
10 to hopefully get some transparency in the process
11 for how labor unions are going about this new
12 corporate -- actually not new, but this corporate
13 campaign tactic of theirs. And include it in your
14 next IEPR.

15 This all started actually in the late
16 1980s with a group called District 51. It
17 happened to be through the Pipe Trades. And they
18 found that on their first couple projects, while
19 they weren't successful, by dragging out the
20 permitting process for two, three, four years,
21 they were able to get corporations to then fold
22 and acquiesce to sign a project labor agreement,
23 which also leads to maintenance agreements.

24 This is truly a constraint for people
25 that are looking to get into the petroleum market,

1 into the power plant processing, or permitting
2 portion of projects. In the City of Riverside
3 right now we are monitoring them very closely.
4 CURE is involved. CURE, which most people in here
5 if you don't know who they are, you're probably
6 going who are they, most thing that you do,
7 probably shrug your head a little bit like, oh, my
8 god, here's CURE.

9 They will -- not harass, they do
10 everything legally, but they do impede the
11 process. They file claim after claim trying to
12 stop a process until they receive their ultimate
13 goal, which is to have a project labor agreement.

14 We're hoping to see maybe a stop in how
15 they act. At least, if they are getting involved
16 in these processes, make sure that the claims are
17 what they say they are, and that they seem them go
18 all the way to fruition.

19 We are going to prepare something in
20 writing. I believe we have until July 12th, is
21 that correct, to have something in writing?

22 PRESIDING MEMBER GEESMAN: Rick, is that
23 our schedule?

24 MR. BUELL: Yes, I think I gave everyone
25 until July 12th to file written comments.

1 MR. FRIAR: Right, so I won't take up
2 any more of your time, but look forward to working
3 with you in the future.

4 PRESIDING MEMBER GEESMAN: Thank you.
5 The last one I'm going to try to pronounce it
6 correctly, Tom Gieskes. How close?

7 MR. GIESKES: Quite close. It's Thomas
8 Gieskes with Stillwater Associates, -- some of the
9 previous speakers, I shall shamelessly reiterate
10 one of my pet ideas. And that is the tradeability
11 of reductions in mobile sources.

12 This is something that I think rather
13 than mandating for, might open the door for
14 voluntary reductions. Lots of the refiners could
15 actually work to much better formulations within
16 the model, but don't do so because they don't see
17 a benefit for that additional cost.

18 I think that might also go a long way of
19 creating room for them to do other projects. And
20 if they voluntarily produce better fuels, which in
21 very concentrated areas like the L.A. basin, end
22 up being emitted into the air very close to the
23 refinery in the first place.

24 But the tradeability of voluntary mobile
25 source reductions could open the door to really

1 substantial reductions in air pollution close to
2 the refineries, and open the door for other
3 projects for the refiners.

4 And then I see that Commissioner Boyd
5 has left, but just to elaborate a little bit on
6 the question that he asked my partner, Dave
7 Hackett, on what is the impact of what's happening
8 in China.

9 And as strange as this may seem, I think
10 that the forecasts tremendous increase in
11 transportation fuel amount in China will actually
12 be beneficial for California. Here is the reason
13 why: We're actually in the process of doing some
14 early conceptual feasibility work for a new grass
15 roots refinery targeted for the Chinese market.

16 This refinery would be built in a
17 country where the land is cheap; where there is
18 hydroelectric power, a penny and a half a
19 kilowatt, where there is stranded natural gas
20 which could be used as refinery fuels, and where
21 there is cheap labor. With that sort of premise
22 why would you build a refinery in California.

23 And the fortunate aspect of a refinery
24 is that in the developing markets, India, China
25 and other country economies, and in Europe, diesel

1 is the main fuel. So the gasoline comes out of
2 these refineries almost as unwanted byproducts.

3 Given the very juicy prices in
4 California, the predicted prolonged shortage of
5 gasoline for refinery projects such as those, and
6 I (inaudible) I call them very similar projects,
7 everybody is looking to California for the
8 gasoline component.

9 And once you build a new refinery to
10 make the refinery capable of producing California
11 grade fuel components, at least, is quite do-able.
12 So I think that in the coming five, six years we
13 will see new refinery capacity come on stream, and
14 the new refinery capacity is very likely to have
15 California get (inaudible). And that makes it all
16 the more important, I think, for us to continue to
17 improve the import capabilities of the ports. And
18 I think continued support there is necessary.

19 PRESIDING MEMBER GEESMAN: What do you
20 think the problem that the air agencies have with
21 global source trading is likely to --

22 MR. GIESKES: I think it's the
23 measurability of it. It's not like a stack where
24 you can continue to measure emissions monitoring.
25 On the other hand, the predictive model and the

1 complex model actually would allow that to a large
2 extent.

3 So, with the current accounting that
4 goes on around fuel quality and certification of
5 fuels every time you make a blend, you could
6 instigate a system of credits or penalties if
7 you're over or above certain qualities of fuel.

8 These are very real reductions. We were
9 involved, Stillwater Associates, simultaneously
10 with two projects. One was the reduction of tank
11 emissions by the South Coast Air Quality
12 Management District, and at the same time we had a
13 client that was producing or developing additives
14 for fuel that were very successful in reducing
15 emissions.

16 These additives, for instance, if added
17 to California gasoline would provide a reduction
18 of many times over what the tank emission
19 reductions brought about, at a fraction of the
20 cost. But, since the refiners would have to buy
21 an additive, and they would not see any benefit
22 for reducing the mobile emissions, that project
23 faces a very steep uphill climb.

24 I think if there is a -- if the door
25 opens where you can quantify the mobile source

1 reductions and refiners will see benefits for
2 that, there will be lots and lots of inventive
3 solutions that really tie to large reduction of
4 emissions, not the dwindling tail of the
5 stationary emissions by itself.

6 PRESIDING MEMBER GEESMAN: Any written
7 materials that you could provide us or forward us
8 from existing public domain sources, if that's all
9 that's out there, would be carefully read.

10 MR. GIESKES: Okay, that shall be my
11 pleasure.

12 PRESIDING MEMBER GEESMAN: Anyone else
13 that cares to address the Committee?

14 MR. BUELL: Is there anyone on our call-
15 in system that would like to make a comment at
16 this time?

17 PRESIDING MEMBER GEESMAN: I'm going to
18 thank you all for bearing with us. It's been a
19 long day, but a very productive one.

20 (Whereupon, at 4:37 p.m., the workshop
21 was adjourned.)

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CERTIFICATE OF REPORTER

I, PETER PETTY, an Electronic Reporter,
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Energy Commission Committee Workshop; that it was
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I further certify that I am not of
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IN WITNESS WHEREOF, I have hereunto set
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